



Memorandum

**TO: HONORABLE MAYOR AND
CITY COUNCIL**

FROM: Leslye Krutko

SUBJECT: SEE BELOW

DATE: May 30, 2007

Approved

Ray Wines

Date

6/4/07

Council District: Citywide

**SUBJECT: PUBLIC HEARING OF THE FIVE YEAR HOUSING INVESTMENT PLAN
FOR FY 2007-08 THROUGH FY 2011-12**

RECOMMENDATION

It is recommended that the City Council discuss and take action to approve the Five Year Housing Investment Plan for Fiscal Years 2007-08 through 2011-12.

OUTCOME

By approving the Five Year Housing Investment Plan, the City will be able to continue producing quality affordable housing to serve the needs of San José residents.

BACKGROUND

San José faces important challenges in providing affordable housing for all socioeconomic segments of its population, given the highly competitive housing market and limited public dollars. The Five-Year Housing Investment Plan (FYHIP) outlines the approach the City plans to take during the next five years – from Fiscal Year 2007-08 through Fiscal Year 2011-12 – to meet these challenges. The document will become the basis for guiding the City and Housing Department in the future development of policies, programs, and permanent local funding sources for affordable housing.

The Five-Year Housing Plan contains eight major sections. These sections include: Executive Summary, Partnerships in Housing, Housing Market Analysis, City Housing Policies, Recent Housing Efforts, Funding Sources, The Next Five Years, and Implementing Actions.

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ANALYSIS

The Five-Year Housing Investment Plan includes a discussion of current City policies and a listing of actions to be taken over the next five years. While, the report covers many areas, we have highlighted the key recommendations and actions below. A complete draft copy of the report is attached (see Attachment A).

RECOMMENDED POLICY CHANGES

Income Allocation Policy

The current policy states that the City is committed to assisting those most in need by targeting 85% of the funding for large development projects and rehabilitation assistance to lower-income households. The remaining 15% is targeted to moderate-income households. As noted in the recent LISC study of Santa Clara County's housing needs over the next 20 years, of the 90,000 units needed in Santa Clara County, the single largest need (76% or 68,700) is for extremely-low income (ELI) housing. As a result of these findings, Staff is recommending that the income allocation policy be revised to create a new funding goal of 30% ELI, 30% VLI, 25% LI, and 15% moderate income.

New Teacher Housing Pilot Program

The current Assistance to Teachers Policy provides housing assistance to teachers, primarily in the form of first-time homebuyer assistance. Staff recommends implementing a pilot rental assistance program to provide move in assistance to teachers in partnership with the Silicon Valley Leadership Group and the school districts.

Inclusionary Zoning Policy

The Inclusionary Zoning Policy currently states that developers of for-sale housing may choose to meet the existing 15% requirement (6% very low-, and 9% low- and moderate-income) or the City's new 20% requirement (all moderate income) which was adopted in 2001. Developers of rental projects must provide 20% of the units affordable to lower and moderate-income households (8% very low-, and 12% low- and moderate-income). Staff is recommending changes to the Policy to: (1) provide flexibility to developers to pay in-lieu fees or transfer land to a nonprofit developer for affordable housing in addition to the current requirement that the units be included in the developments; (2) adjust current in-lieu fees to reflect the actual costs of providing affordable units; (3) deepen the required affordability levels under the inclusionary housing policy for rental developments; and (4) make adjustments to encourage developers in the Downtown core to build high-rises.

ACTION TO BE TAKE OVER THE NEXT FIVE YEARS

Teacher Housing Program

Over the next five years, Staff should explore options to expand the current homeownership program to include other education professionals and potentially, extending to community college instructors.

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Inclusionary Zoning Policy

Consider expanding the City's inclusionary policy to include large special planning areas, industrial conversions, or perhaps adopting a Citywide inclusionary policy.

Financing/Permanent Revenue Source

Given the current gap between the high need for affordable housing and the lack of financial resources, it is critical that a permanent source of funding for affordable housing be identified. The City must adopt priorities for the use of these funds to ensure the production of a diversity of housing types to address the range of housing needs in the City. Several of the proposed strategies to finance and increase the housing supply include: (1) protect existing funding available to local jurisdictions for affordable housing, especially redevelopment tax increment funding; (2) develop a permanent local and/or regional source of funding for affordable housing through such mechanisms as a local bond, levying recording fees, or increasing reconveyance taxes.

Five-Year Zoning for Housing

The City is embarking on a major update of its General Plan. As this significant work effort takes place over the next two years, the City is expected to explore ways to expedite housing development. Currently, the City Council designates land for residential use under the General Plan for purposes of the City's Housing Element. The current practice is that these sites are then rezoned by individual developers. Several of the proposed changes include: (1) budget adequate resources to zone land for housing to prepare it for development, starting in the North San José Redevelopment Area where up to 8,000 new units of housing are anticipated; (2) as part of the General Plan Update, evaluate all sites planned for housing to determine appropriate densities; (3) provide developers with information about sites the City would like to see housing built; (4) consider allowing development "by-right," whereby development can occur if it is consistent with the zoning; and (5) strengthen outreach to neighborhoods.

PRODUCTION GOAL FOR THE NEXT FIVE YEARS

Financing and Production

Over the next five years, there will be approximately \$584 million available for all affordable housing programs. The available funds include \$140 million of new borrowing. With this funding the Department estimates the following units will be produced: 2,750 units of rental housing, 550 homebuyer assistance, 1,600 units rehabilitated, 1,225 units painted/minor repairs, and 250 units assisted by Project Alliance.

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PUBLIC OUTREACH

- ☐ **Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- ☐ **Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- ☐ **Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

A critical component to the success of the Five-Year Housing Investment Plan is the participation of representatives from all segments of the community in an advisory capacity. As a consequence, a Working Group comprised of the Silicon Valley Leadership Group, Charities Housing, Working Partnerships, USA, Homebuilders Association of Northern California-Southern Division, SVB Financial Group, EHC LifeBuilders, The Housing Trust of Santa Clara County, California Apartment Association – Tri County Division, California Housing Consortium, Office of Affordable Housing-County of Santa Clara County, Neighborhood Housing Services Silicon Valley, Housing & Community Development Advisory Commission, CORE Development, First Community Housing, Non-Profit Housing Association of Northern California (NPH), Community Homeless Alliance Ministry (CHAM), Housing Authority of the County of Santa Clara, ADOBE Systems Incorporated, United Way of Silicon Valley, Affordable Housing Network, San José Downtown Association, and the Santa Clara County Association of REALTORS (SCCAOR) was established to assist the Department in drafting a new strategy.

The Working Group assisted in the process of identifying policies and funding sources that will help promote and maintain affordable housing in the coming five years. Since February 2007, the Group met five times. The Meetings were held on February 26th, March 12th, March 26th, April 9th, and May 4th.

In addition, the Housing and Community Development Advisory Commission provided feedback to key policies in the Draft Five Year Plan FY 2007-08 – FY 2011-12 at its May 10, 2007 meeting and will consider approval at its June 14th meeting. On May 24, 2007 the Community and Economic Development Committee reviewed the draft proposal of the Five Year Housing Investment Plan.

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COORDINATION

Preparation of this report has been coordinated with the Redevelopment Agency, the Parks and Recreation Department, Planning and Building Code Enforcement, and the City Attorney's Office.

CEQA

Not a project.


LESLEYE KRUTKO
Director of Housing

Attachment (1)



FIVE-YEAR HOUSING INVESTMENT PLAN

DRAFT

FISCAL YEARS 2007/08 – 2011/12

Prepared by The City of San José Housing Department

June 1, 2007



ACKNOWLEDGEMENTS

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EXECUTIVE SUMMARY

The City of San José is the tenth largest city in the United States, with 975,000 residents calling the city home, it is also the Capital of the Silicon Valley and it has the added distinction of being headquarters for many of the world's largest technology companies.

Family, neighborhood, community and cultural diversity top the list of attributes that make San Jose residents proud to call this city their home. San Jose is proud of the cultural and ethnic diversity of its population, and the rich cultural identity of its many neighborhoods. In addition, San Jose boasts the highest disposable household income of anywhere in the country. With the largest concentration of technology expertise in the world, it is not surprising that over half of the adult population holds a college degree.

With such a rich and diverse community it is no wonder that the City has experienced rapid growth over the years. This prosperity has also lead to a lack of affordable housing options for many in the Bay Area.

Generally, San José has the highest incomes than the rest of the State and Bay Area. The 2007 median household income for a family of four in San Jose was \$105,500, the highest median income in the nation. California's median income for a family of four in 2007 was \$70,712. Despite the high median income, San José remains one of the most unaffordable places to live in California. Housing prices continue to be significantly higher than other parts of the State and nation. While high-tech workers generally enjoy high incomes, many workers in the support/service industries earn lower- and moderate-incomes, and the gap between income and housing affordability continues to widen. The City of San Jose has responded aggressively to meet the need for affordable housing and seeks to continue to meet an ambitious goals and plan of action of this Five-Year Housing Investment Plan in order to meet the many challenges to providing quality, attractive affordable housing.

In the City of San José 2005 Community Survey, respondents were asked to identify the most serious issue facing San José residents that the City government needed to address. Of the forty concerns raised by survey respondents, affordable housing ranked fourth, at 8%, after crime (13%), traffic congestion (11%), and education (9%). Other housing related concerns, such as homelessness and housing condition, were also noted among respondents. Additionally, according to the annual CEO Business Climate Survey conducted by the Silicon Valley Leadership Group (SVLG), 9 out of every 10 employers believe housing costs is the greatest challenge facing Silicon Valley companies and their employees. Ninety-seven percent of respondents cited housing costs as the most significant challenge facing working families.

San José faces important challenges in providing affordable housing for all socioeconomic segments of its population, given the highly competitive housing market and limited public dollars. This Five-Year Housing Investment Plan (FYHIP) outlines the approach the City plans to take during the next five years – from Fiscal Year 2006-07 through Fiscal Year 2011-12 – to meet these challenges.

This FYHIP contains the following major sections:

- ❖ **Partnerships in Housing** – This section describes the coordinated efforts among various internal and external partners of the City.
- ❖ **Housing Market Analysis** – This section provides an overview of City demographics and current and projected housing needs in San José.
- ❖ **City Housing Policies** – This section describes San José's current housing-related policies and summarizes the performance of each of these policies.
- ❖ **Recent Housing Efforts** – This section explains the City's innovative efforts to address housing concerns, including unique partnerships and collaborations.
- ❖ **Funding Sources** – This section enumerates the various funding resources available to achieve the City's affordable housing production goals.
- ❖ **The Next Five Years** – This section outlines the City's plan for addressing affordable housing needs.
- ❖ **Implementing Actions** – This section enumerates specific tasks the City will undertake to address key housing issues or concerns during the next five years.

The FYHIP is consistent with the two major housing plans that govern the housing goals and policies established by the City Council: the 2005-2010 Consolidated Plan -- required by the federal government -- and the 2006-2013 Housing Element, which is a State-mandated report. The Consolidated Plan outlines the City's strategy to address its housing and community development needs. Developed through a collaborative process, the Consolidated Plan provides a unified vision for the City's various housing and community development actions. The 2006-2013 Housing Element is a component of the San José 2020 General Plan. The Housing Element sets forth the City's housing goals, policies, and programs for seven-year increments based on information contained in the Consolidated Plan. The Plan is also consistent with the federally required Analysis of Impediments to Fair Housing Choice, as well as the City's Ten-Year Plan to End Homelessness. The FYHIP is intended to serve as a guide to the City's housing policies and production goals, providing a concise summary of the City's actions towards achieving its vision for meeting the City's housing needs established.

Finally, this FYHIP demonstrates the City of San José's commitment to addressing the housing need raised in the Bay Area Local Initiatives Support Corporation's February 2007 report entitled *Housing Silicon Valley: A 20 Year Plan to End the Affordable Housing Crisis*. According to the report, over the next twenty years, through a combination of natural growth and in-migration, the need for housing will increase throughout Santa Clara County. The report finds that Santa Clara County will need 49,504 new



apartments, condominiums, and detached homes. When added to the existing needs for affordable units the need grows to 90,908 new units, including homes for the homeless. The report concludes that the gap in housing, after considering market forces, will be 40,292 housing units or 2,000 units per year for 20 years. Additionally, the report notes that the greatest need for housing is for extremely low income households and affordable homeownership opportunities. The City is dedicated to addressing these findings provided by the report. The FYHIP suggests revisions to current policies and funding sources to encourage the development of affordable housing in San José.



INTRODUCTION

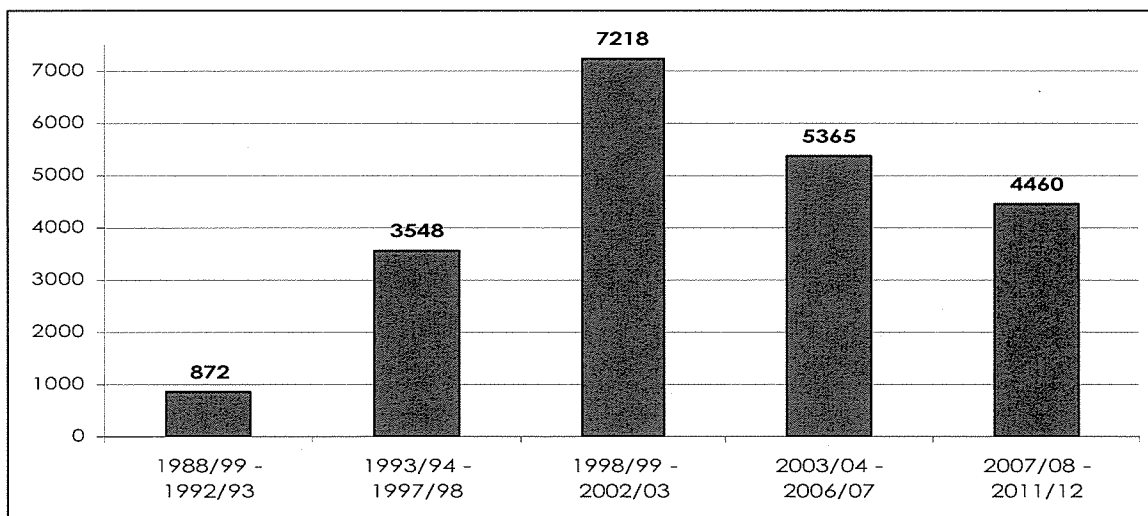
The City of San José continues to develop quality affordable housing. The City is regarded by many observers as one of the best and most productive affordable housing programs in California.

The Housing Department continues to follow the policy objectives developed by the Mayor's Task Force on Housing when the Department was created in 1988. These goals include:

- Increase the supply of affordable housing, preserve the housing stock, and reduce the cost of developing affordable housing.
- Utilize available resources to address priority needs for housing.
- Increase the funds available for the preservation and development of affordable housing.
- Disperse low-income housing throughout the City, to avoid concentration of low-income households and to encourage racial and economic integration.
- Encourage greater involvement of the public and private sector to increase and preserve the stock of affordable housing in San Jose.

Since the inception of the Housing Department, the City has set aggressive housing production goals. From 1999 to the present 1999, the City has created 12,000 units of affordable housing units through direct and indirect financing, and the City's/ Redevelopment Agency's inclusionary requirement. Chart 1 summarizes the total production of affordable units from 1988-2006. The fifth column represents the anticipated production over the next five years.

Chart 1: Total Production of Units from 1999-2007



The City remains committed to financing housing affordable to the lowest income levels and to ending homelessness.



PARTNERSHIPS IN HOUSING



Responding to the community's need for affordable housing involves a unique partnership. The City of San José partners closely with developers, service providers, advocates, and other public entities in meeting the housing challenges of the Silicon Valley. This section describes the coordinated efforts among various internal and external partners of the City of San José.

Department of Housing

The City's Department of Housing is the primary department responsible for the administration of the City's comprehensive affordable housing program. The Department supports a variety of affordable housing activities, including the construction, preservation, and improvement of affordable housing in the community.

Core Services and Programs

The Department's core services are to:

- ❖ Increase the affordable housing supply
- ❖ Maintain the existing affordable housing supply
- ❖ Provide services to homeless and at-risk populations

To achieve the housing goals and implement the identified core services, the Department administers a number of programs. The core services are further described below, followed by a description of the housing programs.

Core Service – Increase the Housing Supply

Housing Production

The Housing Department is a public-purpose lender that provides financing for new construction (land acquisition, construction, and permanent financing) of affordable housing. Low-interest loans are provided to developers as gap financing to build new units and acquire and rehabilitate existing units. The City leverages its resources through the sale of bonds for housing development. Predevelopment loans are also provided to nonprofit housing developers during the planning stages of affordable housing projects to cover “soft” costs prior to purchase of the property, including architectural work, environmental reviews, and appraisals.

While the focus is on providing funding for the development of affordable rental complexes for families, the Department also assists in the development of affordable senior rental housing, Single-Room Occupancy (SRO) units, homeless shelters, transitional housing, and other special needs housing. Additionally, the Department occasionally has funds available for new developments of for-sale mixed-income projects.

Homebuyer Assistance

The City has a number of homebuyer assistance programs to help potential homeowners bridge the financial gap to homeownership. These include:

- Programs that the City administers directly, including its Teacher Homebuyer and First Time Homebuyer Programs, and second mortgages to specific projects as forward commitments.
 - **Downpayment Assistance for Participating New Developments**- Deferred repayment loans to homebuyers (0% interest, shared appreciation loan).
 - **Building Equity and growth in neighborhoods (BEGIN)** - Provides deferred repayment loan of \$30,000 for down payment (3% simple interest rate).
 - **Teacher Homebuyer Program (THP)** - Provides deferred repayment loan of up to \$65,000 (\$40,000 for those earning 90-120% AMI) 0% interest, shared-appreciation loan for full-time San Jose K-12 public school teachers.
 - **San Jose State University Faculty Homebuyer Program (FHP)** - Provides deferred repayment loan of up to \$60,000 (0% interest, shared-appreciation loan) for fulltime tenure tracked faculty at SJSU.
- Programs that the City contracts with others to provide, such as the Neighborhood Housing Services Silicon Valley (NHSSV) Programs.
 - **Home Venture Fund** – Provides downpayment assistance (\$20,000 to \$80,000) for low- and moderate income households, interest and

payments deferred for five years. The home must be purchased within San Jose municipal boundaries and only for purchase of owner-occupied, single family home, condominium, or townhome.

- Programs that our citizens qualify for, such as the State Teachers Retirement System (STRS) Program, the Mortgage Credit Certificate (MCC) Program, and the Housing Trust of Santa Clara County's Homebuyer Assistance Programs. The Department assists San José residents in accessing these programs.
 - **Mortgage Credit Certificate Program (MCC)** – Provides a federal tax credit for 15% of the mortgage interest and may not be combined with CalHFA's first mortgage programs. The maximum purchase price is \$570,000 for existing homes and \$630,000 for new homes. The residence must be purchased within Santa Clara County.
 - **Housing Trust of Santa Clara County** – provides a 0% interest, deferred repayment loan up to \$6,500 for downpayment or assistance with closing costs. The home must be purchased within Santa Clara County, and the maximum purchase price for the program is \$550,000.

Core Service – Maintain the Existing Affordable Housing Supply

Rehabilitation and Preservation

The Housing Department offers a variety of rehabilitation and preservation programs, including acquisition/rehabilitation financing for large projects, and rehabilitation loans and grants for owner-occupied and small rental properties. The loan and grant programs are designed to assist lower-income homeowners and owners of rental properties to repair and improve affordable housing. A wide variety of loan and grant packages are available, from \$5,000 exterior paint grants to loans of up to \$100,000 for substantial rehabilitation of single-family homes.

In June of 1998, the City Council established a policy to preserve as many at-risk units possible and adopted a series of actions to address the issue of owners with expiring project-based Section 8 contracts wishing to opt out of the program, as well as owners with federally insured mortgages that wish to prepay. In some cases, the federal government renews projects on a year-by-year basis. However, other projects require other assistance to maintain them as affordable, either through purchase by a nonprofit, or through other subsidies.

The acquisition and rehabilitation of existing apartment buildings, together with imposing long-term affordability restrictions on those projects, remains a key component of the City's affordable housing program. The per-unit cost of acquisition and rehabilitation projects is often a less expensive, more efficient method of affordable housing production than new construction. The City has made acquisition and rehabilitation a priority and anticipates substantially increasing the production of newly restricted units.

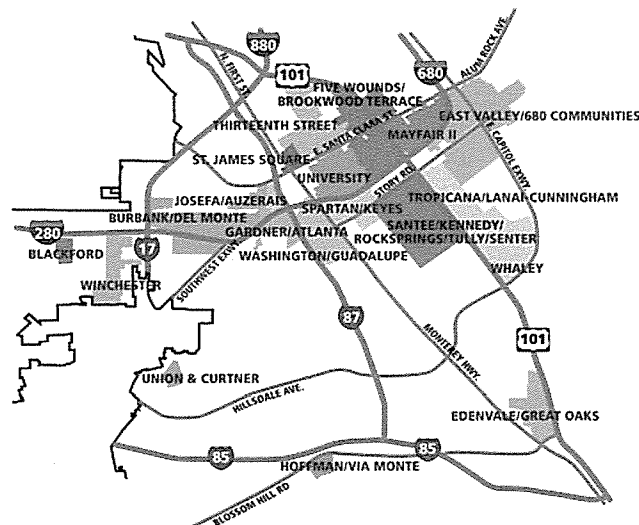
Acoustical Treatment Program

In conjunction with the Airport, the Department works to improve the living conditions of people residing in eligible areas near the San José International Airport by reducing the aircraft-related noise in their living spaces to meet federal and State noise standards. The Acoustical Treatment Program (ACT) consists of a 10-step process beginning with an assessment visit and concluding with the completion of noise-reducing rehabilitation. The main benefit of the ACT Program is a substantial reduction in interior noise levels in habitable spaces.

Strong Neighborhood Initiative

The Department continues to be an active participant in the City's Strong Neighborhood Initiative (SNI), which is aimed at improving neighborhood conditions by enhancing community safety, expanding community services, and strengthening neighborhood associations. The SNI Initiative attempts to preserve existing affordable housing stock by working with non-profit groups and neighborhood leaders to implement a wide range of reinvestment strategies. These include rehabilitation through home improvement grants, community paint days and private investments. A map of San José is provided below, which highlights the City's SNI areas.

Strong Neighborhoods



The City seeks opportunities for increasing the supply of affordable, as well as market rate, housing in the SNI areas that request such development. Additionally, to assist homebuyers in the SNI areas, the City and the Redevelopment Agency fund a number of second mortgage program, including a First-time Homebuyer Program, and the Teacher Homebuyer Program.

Project Alliance

Project Alliance is a comprehensive housing rehabilitation program and partnership and targets the top ten priorities within the Neighborhood Improvement Plan. The program was developed in collaboration with property owners, tenants, consultants, and other City departments to develop and implement a comprehensive revitalization plan. Over the past five years Project Alliance has provided improvements for over 330 Multi-family units.

In working with various stakeholders Project Alliance has developed improvement strategies in at least three project areas. Implementation of phase 1 of these improvements is on target for fiscal year 2007-2008. The program goal is to improve at least 30 units of Multi-family properties annually and continue to focus resource as needed in the single family neighborhoods.

Community Development Block Grant

The Housing Department administers Community Development Block Grant (CDBG) funds, which support a variety of housing programs such as the Housing Rehabilitation Program, homeless services providers, and fair housing services providers. The Community Development Block Grant (CDBG) Program provides non-profit agencies and organizations with resources to implement services that benefit low- and moderate-income persons, resolve slum and blight concerns, or address community development needs. The Housing Department applies for federal funding through the Consolidated Plan process and reports the results in the Consolidated Annual Performance Report on a yearly basis.

Rental Dispute Program

The Rental Dispute Program oversees two ordinances, the Rental Dispute and Mediation Ordinance for apartment units constructed prior to 1979 and the Mobile Home Rent Mediation Ordinance. The overall goal of the Program is to stabilize rent increases for apartments and mobilehomes within San José. Rent stabilization enables San José residents to maintain their current affordable housing.

Loan Management

The Department maintains the management functions of its loan portfolio. These involve the coordination and ongoing monitoring of City-financed or sponsored housing to ensure that the requirements of the loan terms are met. In addition, the Department manages the loans on affordable units assisted by the Redevelopment Agency.

Core Service – Provide Services to Homeless and At-Risk Populations

Homeless Services

The problems facing homeless people are complex, requiring a coordinated and regional response. In the urban areas of Santa Clara County, the City of San José has worked in partnership with the County of Santa Clara to help local jurisdictions work together to end homelessness in ten years.

The focus of the Homeless Division is to coordinate the housing and homeless assistance efforts of the City with other agencies and governmental entities serving homeless families and individuals; to provide direct services to homeless individual and families; to ensure sufficient funding for homeless needs; to administer grant funds; to monitor nonprofit agencies receiving funds from the City and U.S. Department of Housing and Urban Development; to examine emerging homeless trends and implement services to respond to those trends; and to coordinate homeless issues on a regional, State, and national level.

Additional Department Services

Housing Planning, Policy and Program Development

In addition to administering housing programs and providing funding for affordable housing development, the Department is involved in planning efforts to develop policies and programs to address the housing needs in San José. Such efforts include legislative advocacy, dissemination of public information, preparation of State and federally mandated plans such as the Housing Element of the General Plan and the Consolidated Plan, and research, analysis, and staff support to various standing committees.

Strategic support represents services provided within departments that support and guide the provision of the core services. Strategic support within the Housing Department includes: Public Education, Long Range Planning, Financial Management, Computer Services, Clerical Support, Employee Services, Facility Management, Vehicle Maintenance, Audit Supervision, and Materials Management.

City Agencies with a Direct Role in Housing

As part of the City's efforts to develop affordable housing, the Department of Housing relies on the staff resources from a variety of other City departments.

City Attorney's Office

The City Attorney's Office plays a key role in providing support for individual development projects, procedural changes, and review of legal documents. There are three attorneys assigned to the Department of Housing to fulfill these tasks. In the context of development projects, these attorneys provide advice on issues such as the legal foundation for financing as well as organizational structures for project sponsors.

The partnership between the Housing Department and the City Attorney's Office is critical to the successful implementation of the City's goal of providing affordable housing.

Community and Economic Development City Service Area Team

The Community and Economic Development City Service Area Team (CED CSA) meets weekly to discuss housing and economic development issues to ensure efforts to address the concerns are coordinated. The CED CSA is made up of a number of departments, including the following:

- ❖ Housing
- ❖ Redevelopment Agency
- ❖ Office of Economic Development
- ❖ Planning, Building & Code Enforcement
- ❖ Transportation
- ❖ Public Works
- ❖ Budget Office
- ❖ Fire

The group produces a 5-year Business Plan and a 1-year Investment Strategy on an annual basis. These plans guide the City's efforts and investments in economic and neighborhood developments throughout San José.

Office of Economic Development

The Office of Economic Development has the mission of expanding employment opportunities in the City, working to create a vibrant local economy, and responding readily to regional economic shifts and trends. Economic development and housing are closely connected. A healthy local and regional economy must be sustained by adequate housing for its workforce.

The Office of Economic Development operates the Silicon Work 2 Future Program. The Work 2 Future Program functions as the local administrative arm of the Workforce Investment Act of 1998 (WIA). Work 2 Future operates three One-Stop Career Centers in the areas of San José, Campbell and South County. It also provides workforce development services for the cities of Los Gatos, Morgan Hill, Los Altos Hills, Saratoga, Monte Sereno, and the unincorporated areas of Santa Clara County.

Work 2 Future works in partnership with small and large businesses, educational institutions, and community-based organizations. Housed within the City of San José Office of Economic Development, Work2Future is strategically positioned to address the workforce and economic development needs of our local area and increases employment opportunities and job retention for all residents.

Finance Department

The Finance Department works in conjunction with the Housing Department to increase the supply of affordable housing within the City by managing and coordinating the

issuance and management of debt needed to finance affordable housing project. These activities include long and short-term borrowing, debt refunding, debt capacity management, and credit quality oversight. Additionally, the Finance Department provides Treasury functions such as wire transfers and bond debt service payment coordination.

Strong Neighborhood Initiative

The Strong Neighborhoods Initiative (SNI) represents the commitment made by the Mayor and the City Council to unite with communities in order to strengthen neighborhoods. The SNI is a partnership of the City, Redevelopment Agency, and the community to build clean, safe, and attractive neighborhoods. The SNI strives to:

- ⌘ Improve neighborhood conditions
- ⌘ Enhance community safety
- ⌘ Expand community services
- ⌘ Strengthen neighborhood associations

Additionally, the City continues to fund Project Alliance, a comprehensive housing rehabilitation program and partnership. Project Alliance targets the top ten priorities within the Neighborhood Improvement Plan and was developed in collaboration with property owners, tenants, consultants, and other City departments to develop and implement a comprehensive revitalization plan.

Planning, Building, and Code Enforcement

The Planning, Building, and Code Enforcement Department (PBCE) and the Housing Department collaborate on the development of plans and reports that guide and monitor the City's overall affordable housing strategy. As a lead agency responsible for the development of the City's General Plan, including the Housing Element, Planning staff recently updated the Housing Element for the 2006-2013 period. The Housing Department, together with Planning and the Redevelopment Agency, is charged with implementing the programs and policies contained in the Housing Element. PBCE also develops Specific Plans for targeted areas of the City and undertakes a variety of studies to help guide future development. An example of this is the Housing Opportunity Study, which seeks to identify specific vacant or underutilized parcels, particularly near the General Plan Transit-Oriented Development Corridors.

In addition to its planning activities, PBCE is responsible for building permitting and inspection, as well as Code Enforcement to ensure that San José's housing, industrial facilities, and commercial buildings are safe.

Redevelopment Agency

The San José Redevelopment Agency is a key player in the delivery of affordable housing. The Agency is dedicated to improving the quality of life in San José through a

comprehensive and balanced redevelopment program. The Agency continues to revitalize and enliven San José's downtown, neighborhoods, and industrial areas.

The Housing Department works closely with the Agency in expanding affordable housing opportunities to fulfill the Agency's inclusionary and replacement housing requirements.¹

The Agency also is an important revenue-generating agency for housing. Redevelopment housing set-aside funds generated by the Agency (described later) are the primary funding source for the New Construction, Housing Rehabilitation, and First-Time Homebuyer Program administered by the Housing Department.

City Agencies with an Indirect Role in Housing

San José International Airport – Through the Housing Rehabilitation Program, the San José International Airport funds noise abatement efforts through the Acoustical Treatment Program (ACT) to mitigate aircraft noise impacts on residences.

Environmental Services Department – In March 2007, the City Council adopted an updated Green Building Policy that states: The City of San Jose will require all new municipal buildings over 10,000 square feet be constructed to achieve LEED Silver level certification at a minimum, with a goal of reaching LEED Gold or Platinum certification. In 2001, the City Council adopted the Green Building Policies. Administered by the Environmental Services Department (ESD), the program promotes green building practices that create environmentally sound and resource-efficient buildings by using an integrated approach to design. Green buildings promote resource conservation by incorporating design features that encourage energy efficiency, use renewable energy, and encourage water conservation.

Fire Department – The Fire Department is an integral part of the development review process. The Fire Department reviews all development proposals for compliance with safety codes. In addition, the Fire and Housing Departments collaborate in disaster coordination such as house and apartment fires.

Police Department – The Housing Department's Homeless Services staff works closely with the Police Department on homeless issues. Together, the Housing and Police Departments work to direct homeless persons to appropriate shelters and facilities, and to provide needed services.

Office of Cultural Affairs – The Office of Cultural Affairs manages the San José Public Art Program. The Public Art Program has more than forty public art projects currently underway emphasizing neighborhood enhancement. The Housing Department and Office of Cultural Affairs are working to establish an ongoing, collaborative planning relationship to insure that the Public Art Program is incorporated into new and existing affordable residential projects throughout the City.

Office of Emergency Services – The Office of Emergency Services (OES), provides services to the City organization and to the community to prepare an effective response to natural, technological, and human caused disasters. In the event of a disaster, the Housing Department partners with OES to staff the Emergency Operation Center to ensure that all citizens affected by the disaster are adequately housed. Additionally, OES has partnered with the Housing Department to provide information to rental property owners to ensure their properties are seismically safe.

Department of Public Works – This Department also participates in the development review process, monitoring compliance with public right-of-way improvement requirements, and compliance with storm water run-off regulations.

Department of Transportation – The Department of Transportation (DOT) takes part in the development review process for housing development projects. Staff from this Department monitor the transportation/traffic level of service policy compliance on proposed developments.

Partners External to the City

Coordinating a response to the housing challenge facing the residents of San José and Silicon Valley requires the allied efforts of various entities. The City of San José works closely with a number of outside agencies to find affordable housing solutions.

Developers

An affordable housing strategy cannot be successfully implemented without the cooperation of developers, both for-profit and nonprofit. Developers located in the Bay Area are recognized throughout the Country for the high quality developments they build. The City of San José is fortunate to have the opportunity to work with a highly skilled development community. The following outlines the different financing strategies used by developers of affordable housing:

- **For-Profit Developers** - For-profit developers typically have capital, access to financing in the private market, and substantial experience in packaging mixed-income and mixed-use projects. This expertise is used to develop not only market-rate housing, but also affordable housing throughout San José.
- **Nonprofit Developers** - Nonprofit developers are eligible for a wide range of State and federal funding programs. Through direct financial subsidies, support in grant applications, and assistance through the planning and development permit processes, the Housing Department works closely with the developers to package the best affordable housing development to address the specific needs of the City.

Housing Authority of Santa Clara County

The City of San José has a contractual agreement with the Housing Authority of the County of Santa Clara (HACSC) to administer the City's Section 8 Rental Assistance and Public Housing Programs. HACSC provides federally subsidized rental assistance in the form of vouchers to almost 12,000 very low-income households in San José as a result of this agreement. In addition, HACSC has developed more than 1,300 units of affordable housing since 1995. In 2007, the City reached an agreement with the Housing Authority to set aside 100 vouchers for chronically homeless individuals. The following are additional creative programs administered by HACSC:

- ❖ **Family Self-Sufficiency** – The Family Self-Sufficiency program allows participating families to enter into a contract identifying the responsibilities of the family, including the conditions or causes of termination from the program. This five-year program mandates that families must be off all governmental assistance at the end of the 5th year anniversary. This program allows for escrow accounts to be established in the name of the family. At the end of the five-year period, the family may choose to take the money that is in escrow and spend it on education, housing or transportation.
- ❖ **Shelter Plus Care Program** - The Shelter Plus Care Program provides rental assistance and supportive services to individuals who are chronically homeless and have long term disabilities resulting from serious mental illness, alcohol and drug abuse, or an HIV positive medical condition. The supportive services include counseling, job training, childcare and transportation.

The Housing Trust of Santa Clara County

The Housing Trust of Santa Clara County (HTSCC) is a public/private partnership dedicated to building and sustaining a revolving loan fund and grant-making program that complements and leverages other housing resources throughout Silicon Valley. Major community, business and government leaders have joined together to address the gap between rapid new job creation and affordable, available housing within Santa Clara County. More than \$32 million in private and public donations were received to provide a foundation for the new fund. The Redevelopment Agency made a \$1.5 million contribution to the HTSCC.

The HTSCC is a catalyst to develop specific, desperately needed housing in Santa Clara County through an innovative blend of corporate and community investors. The Housing Trust features three tiers in its program:

- Low-interest down payment and closing cost loans for first-time homebuyers
- Gap financing for affordable rental housing projects
- Funds to assist the homeless in attaining stable housing

Neighborhood Housing Services Silicon Valley

The Neighborhood Housing Services Silicon Valley (NHSSV) formed in 1995 with support from the City. The organization operates under the auspices of the congressionally established NeighborWorks America (NOWA) (formerly Neighborhood Reinvestment Corporation). NHSSV receives training, technical assistance, and funding from NOWA, and participates in a national network of over 200 community-based organizations dedicated to neighborhood revitalization.

NHSSV works to improve the quality of life and the living environment of low- and moderate-income families in San José and its broader metropolitan area. In partnership with the City of San José, residents, the business community, financial institutions, and community organizations, NHSSV provides services that support homeownership, promote neighborhood revitalization, and engender community and family stability.

Silicon Valley Leadership Group

The Silicon Valley Leadership Group (SVLG) represents 200 businesses in Silicon Valley. By creating partnerships with local, State and federal government agencies, SVLG works to provide creative solutions to major public policy issues affecting the economic health and quality of life in Silicon Valley. In an effort to provide solutions to the housing needs of the Silicon Valley, the SVLG established the Housing Action Coalition and the Housing Leadership Council. The following is an overview of these groups:

Housing Action Coalition

The Housing Action Coalition (HAC) works to increase the supply of affordable, well-constructed, and appropriately located housing in Santa Clara County and neighboring communities. Initiated and supported by the Silicon Valley Leadership Group in 1993, the Coalition built on ideas from the County's General Plan Task Force and staff. Comprised of more than 150 individuals and organizations concerned about housing, participating members include the League of Women Voters, Home Builder's Association of Northern California, the Sierra Club, Building and Construction Trades Council, Silicon Valley Manufacturing Group, numerous local governments, Greenbelt Alliance, Santa Clara County Association of Realtors, Tri-County Apartment Association, several chambers of commerce, Santa Clara County Association of School Boards, the Interfaith Council, and the Affordable Housing Network.

The HAC is committed to addressing affordable housing issues through the establishment of an Outreach and Education Committee, Housing Element Committee, Housing Committee, and a Legislative Committee.

Housing Leadership Council

Established and supported by the Silicon Valley Leadership Group, the Housing Leadership Council consists of 70 CEO-level leaders from the public and private sectors who have committed to work together to identify solutions to the Silicon Valley housing

crisis. Seven initiatives have been launched by this group including a Land Use Inventory/Smart Growth Task Force, Housing Trust Fund of Santa Clara County, Public Official Education Task Force, Construction Defect Reform Task Force, Community Education Initiative Task Force, and most recently, a First-Time Homebuyer Assistance Task Force. Each of these initiatives demonstrates the creative approaches used to improve the quality of life in the Silicon Valley.

Santa Clara County Office of Affordable Housing

Santa Clara County administers a number of housing activities located throughout the County Agencies and Departments. On April 9, 2002, the County Board of Supervisors voted unanimously to establish an Office of Affordable Housing under the direction of the County Executive's Office. The County set aside 30% of the funds received from the San José Redevelopment Agency settlement for affordable housing services. The Office of Affordable Housing provides three main housing-related services. The following outlines these services.

Affordable Housing Fund

The Office of Affordable Housing (OAH) began making loans and grants to non-profit agencies, for affordable housing projects and programs in September, 2003. To date, over \$14.5 million dollars has been awarded to affordable housing projects for the creation of affordable housing units for lower income families.

Housing Bond Program

The Housing Bond Program has been operating since the early 1980s. A consortium of the County and most of the cities within the County was initially created to provide an authority to issue bonds to create revenue for developers and first-time homebuyers. Bond proceeds are lent to developers to create new affordable housing units to low- and very low-income households.

The following are programs designed to assist homebuyers:

- ❖ **Mortgage Credit Certificate Program** – The Mortgage Credit Certificate (MCC) Program, authorized by Congress in 1984, provides financial assistance to first-time homebuyers for the purchase of single-family homes, townhomes, and condominiums. The Santa Clara County MCC tax credit reduces the federal income taxes of qualified borrowers purchasing qualified homes; thus having the effect of a mortgage subsidy.
- ❖ **Teacher \$10,000 Program** - The Teacher \$10,000 Program is available to teachers, administrators, and other credentialed school staff who work in any of the County's public K-12 Low Performing Schools. The Teacher Program is a \$10,000 deferred loan from the County at a 0% interest.
- ❖ **Down-payment Assistance Programs** - The County administers the Santa Clara County \$10,000 and \$40,000 Down-payment Assistance Programs (also known as SCC10K and SCC40K). The funds for these programs are provided through the

American Dream Down-payment Initiative (ADDI) and Home Investment Partnership Act (HOME) of the Department of Housing and Urban Development (HUD).

Homeless Services Program

The Homeless Services Program in Santa Clara County provides a variety of programs to the County's homeless population. The program is responsible for the yearly federal grant application process and the bi-annual countywide survey of the homeless population. The following describes the major programs provided by the County to address homeless issues:

- ❖ **Shelter Plus Care** – Shelter Plus Care (S+C) is a homeless service program which provides housing and supportive services on a long-term basis for homeless persons with disabilities, primarily persons with serious mental illness, chronic problems with substance and drug abuse, and people who suffer from AIDS and other related diseases.
- ❖ **Temporary Assistance to Needy Families** – Temporary Assistance to Needy Families (TANF) is a block grant that provides money for states to assist very low-income families. Under TANF, adults must work after receiving cash benefits for twenty-four months. In California, the program is called California Work Opportunity and Responsibility to Kids (CalWORKs).

Blue Ribbon Task Force

According to the most recent homeless count in 2006, there are approximately 7,600 unhoused people on any given night in Santa Clara County. To address the issue of homelessness in Santa Clara, the Blue Ribbon Commission on Ending Homelessness was established. The commission's goal is to provide direction and support for a comprehensive approach to ending homelessness in ten years. The charge of the Blue Ribbon Commission is:

- Review and adopt a set of implementation policies based on the recommendations of the Working Groups.
- Launch a regional public education campaign on homelessness and affordable housing, based on successful practices in other areas, to educate community leaders and the public and encourage support for solutions.
- Develop or access new sources of funding to create more affordable housing units and housing services to prevent and end homelessness.
- Establish realistic goals based on effective models of service and establish measurements for continuing success.

Santa Clara County Collaborative on Housing and Homeless Issues

The Santa Clara County Collaborative on Housing and Homeless Issues is a forum for planning a response to homelessness in Santa Clara County. The Collaborative is comprised of representatives from over 100 County, City, and private agencies that provide services to unhoused residents of the community.

The Collaborative on Housing and Homeless Issues developed the Santa Clara County Five Year Homelessness Continuum of Care Plan. The Plan creates a comprehensive and coordinated system of affordable housing and supportive services for the prevention, reduction, and eventual end of homelessness. The Plan provides a common blueprint to guide the County, the Cities, service providers, the faith community, the business sector, philanthropy, and the broader community in realizing the vision of a community in which everyone's housing and life needs are met. In addition, the Collaborative is working with Santa Clara County on its 10-Year Plan to End Chronic Homelessness - "Keys to Housing."

Endnotes:

¹Pursuant to State redevelopment laws, at least 15% of the housing units developed/substantially rehabilitated in a redevelopment project area must be affordable to lower- and moderate-income households. This requirement is typically referred to as the "inclusionary" requirement. State laws also mandate that any affordable housing unit removed from a redevelopment project area due to an agency action must be replaced within four years of removal. This requirement is commonly known as the "replacement" requirement.



HOUSING MARKET ANALYSIS

The Five-Year Housing Investment Plan outlines the housing needs of San José's residents and the approaches the City plans to take during the next five years to meet these needs. This section provides an overview of San José's demographics, as well as current and projected housing needs.

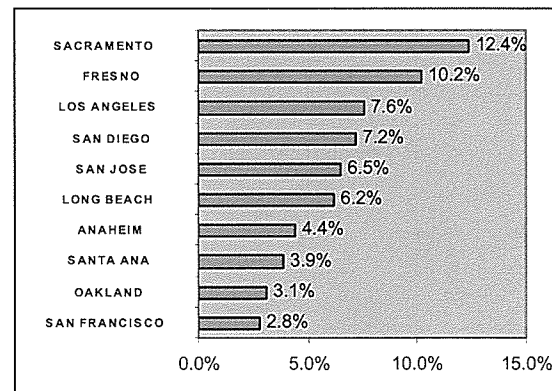
According to *Housing Silicon Valley: A 20 Year Plan to End the Affordable Housing Crisis*, a report completed by Bay Area Local Initiatives Support Corporation (LISC) and The Institute for Metropolitan Studies at San José State University, the affordable housing need in San José and the Silicon Valley will continue to grow. Over the next 20 years, as part of a combination of natural growth and in-migration, new households will be formed in San José, and housing needs will increase. The report finds that Silicon Valley will need 49,504 new apartments, condominiums, and detached homes in addition to existing needs for a total of 90,908 new units required over the next 20 years, including homes for the homeless. Each year, approximately 4,500 total new units will need to be produced to meet the growing need. However, when the report considered market forces, the unmet needs gap totals 40,292 housing units or 2,000 units per year.

San José: Demographic Profile

Population Growth

San José is the third largest city in California, and the tenth largest in the nation.¹ According to the California State Department of Finance (DOF), as of January 2006, San José was home to 953,679 residents, a 6.5 percent increase over its 2000 population.² The City's population is expected to exceed 1 million people by 2009. Since 2000, the City has had an annual average growth

Chart 1: Population Growth in California's Ten Largest Cities, 2000 – 2006



Source: CA Dept. of Finance

¹ United States Census Bureau, <http://www.census.gov/>

² California State Department of Finance, Population Estimates for Cities, Counties and the State, 2001–2006, with 2000 Benchmark, <http://www.dof.ca.gov/HTML/DEMOGRAP/ReportsPapers/Estimates/E4/E4-01-06/HistE-4.asp>, last viewed 11/13/06. For its city estimates, the DOF uses a change model benchmarked to the base year 2000 that corrects for census omissions and geo-coding errors. For more information on the estimation model please see the DOF website at <http://www.dof.ca.gov>.

rate of 1.06 percent. The City's population growth was at its strongest between 2005 and 2006, growing at an annual rate of 1.3 percent, and at its slowest in 2003 and 2004, growing at an annual rate of 0.83 percent and 0.71 percent respectively.

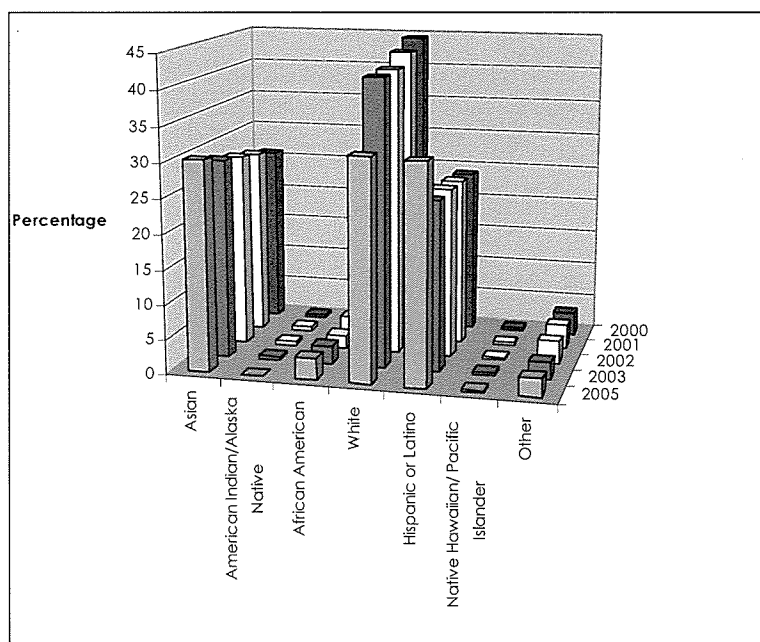
San José's growth in population between 2000 and 2006 was just above the average growth rate of 6.4 percent for California's ten largest cities (Chart 1).

Diversity

San José has a richly diverse population. According to the 2005 American Community Survey, less than one-third (31.8%) of the City's population is white, nearly one-third (31.5%) are Hispanic or Latino, and another 30 percent are Asian. African American (3.3%), "Other" (2.7%), American Indian/Alaskan Native (0.3%), and Native Hawaiian/Pacific Islander (0.3%) made up the rest of the population (See Chart 2).³

The City is home to 80,000 residents of Vietnamese descent, more than any other city in the United States. Recent immigration further enhances San José's diversity: in 2000, 38 percent of San José residents were foreign-born immigrants, and 16 percent of these residents arrived in the United States after 1990.⁴ Over 50 percent of San Jose's households spoke a language other than English, with over 200,000 residents reporting that they spoke English less fluently than "very well."

Chart 2: San José Population by Race



Source: US Census. American Community Survey, 2005

San José Households

According to the 2005 American Community Survey, San José had approximately 299,650 households.⁵ In 2005, families made up the majority (70 percent) of San José

³ US Census, American Community Survey, 2005

⁴ US Census, American Community Survey, 2000 (Unfortunately this data has not been updated since 2000).

⁵ A household is defined by the Census as all persons occupying a housing unit. Therefore, the number of households in a community equals the number of occupied housing units. A unit may be occupied by a family, a single person, or unrelated persons living together. However, college dormitories, assisted living facilities, or other group living arrangements are not considered as housing units. Persons residing in such group quarters are not considered as households.

households. Married couple households comprised 52 percent of the City's households. Single-parent families constituted approximately 18 percent of San José's households, with 70 percent of those families headed by females. Over half (52%) of the City's family households had children under the age of 18.

In 2005, San José's estimated average family size was 3.15 persons, considerably higher than the average household sizes in Oakland and San Francisco⁶ (See Chart 3). Over the next 25 years, San José's average household size is projected to continue to be larger than the other two cities.

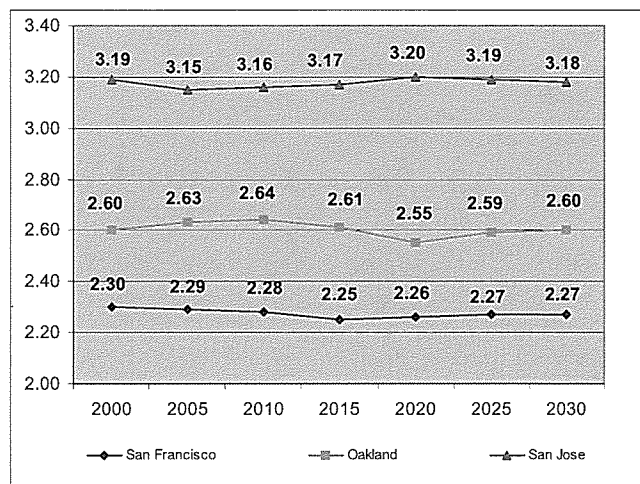
As San Jose's population continues to increase, the City must continue to address the need for all types of housing.

Incomes and Employment

In general, it is difficult to accurately measure the median income of residents in San José since different measures from the Census and American Community Survey can result in different figures. In 2005, San José's median household income was estimated at \$70,921, compared to \$76,810 for all of Santa Clara County, \$53,629 for the State of California, and \$46,242 for the nation.⁷ In 2005, 34 percent of San José households had annual incomes above \$100,000, while 35 percent had incomes below \$50,000.

According to the 2005 American Community Survey, the median family income in San José was an estimated \$79,413.⁸ The annual median income for a married-couple family was \$92,238 and \$47,761 for single-parent families. For female and male single-parent households the annual median income was \$46,037 and \$49,321 respectively (See Table A).⁹

Chart 3: Projected Change in Household Sizes, 2000 – 2030



Source: ABAG Projections 2005

⁶ ABAG 2005 Projections

⁷ 2005 American Community Survey, <http://www.census.gov>

⁸ 2005 American Community Survey, www.census.gov

⁹ Ibid.

Table A: San José Median Family Incomes 2005

San José Median Family Incomes	
Family Type	Median Income (2005 Estimate)
Total Families	\$79,413
Married-couple families	\$92,238
With own children under 18 years	\$90,364
No own children under 18 years	\$87,287
Other family	\$47,761
Male householder, no wife present	\$49,321
With own children under 18 years	\$49,751
No own children under 18 years	\$49,085
Female householder, no husband present	\$46,037
With own children under 18 years	\$31,248
No own children under 18 years	\$53,873

Source: 2005 American Community Survey (estimate)

To determine the income limits for its affordable housing programs, the City of San José uses the Area Medium Income (AMI) for a family of four as defined by the California State Department of Housing and Community Development (HCD). HCD uses percentages of this base AMI to determine an area's income limits. For example, 30 percent of the AMI is considered extremely low-income, 50 percent AMI is very low-income, and 80 percent AMI is low-income (as adjusted annually)¹⁰. Furthermore, for all of the income categories, HCD adjusts the AMI for household size so that larger households have higher income limits than smaller households. The AMI for a family of four is adjusted by 80 percent for a family of two, 90 percent for a family of three and 108 percent for a family of five.¹¹ The 2006 AMI for Santa Clara County was \$105,500.

Due to differing methodologies, a jurisdiction's AMI will differ from the US Census Bureau's median income determinations. The US Census Bureau bases its determinations on its decennial census or estimates from the American Community Survey. HUD's methodology, however, is not as straightforward. HUD often, but not always, determines the AMI as "the greater" of either; 1) the median family income for a county's metropolitan statistical area or its nonmetropolitan county; 2) the median family income for nonmetropolitan counties statewide; or 3) the area median income of the prior year."¹²

For high-cost areas such as San José, categories based on an area's median household income provide a more accurate view than the federal poverty line of the number of individuals in need of financial assistance. The federal poverty line for a family of four is \$20,650. Households in San José who earn 30% of the area median income (considered extremely low-income) make approximately \$30,000 annually. In a high cost area such as San José, low-income workers earn wages well above the federal poverty line, but

¹⁰ The adjustment is not always 80%.

¹¹ 2006 Income Limits memorandum, Department of Housing and Community Development, <http://www.hcd.ca.gov/hpd/hrc/rep/state/inc2k6.pdf>

¹² 2006 Income Limits memorandum, Department of Housing and Community Development, <http://www.hcd.ca.gov/hpd/hrc/rep/state/inc2k6.pdf>, pp.2

are unable to afford housing, food, transportation, and child care in their communities. Table B provides San José's 2006 income limits for extremely low-income to moderate-income families by number of persons.¹³

Table B: San José Income Limits by Household Size (2006)

Income Category	% Median Income	Number of People in Household				
		1	2	3	4	5
Extremely Low Income	0-30%	\$22,300	\$25,450	\$28,650	\$31,850	\$34,400
Very Low Income	31-50%	\$37,150	\$42,450	\$47,750	\$53,050	\$57,350
Low Income	51-80%	\$59,400	\$67,900	\$76,400	\$84,900	\$91,650
Moderate Income	81-120%	\$88,600	\$101,300	\$113,950	\$126,600	\$136,750

Source: California Housing and Community Development Department

According to the 2004 American Community Survey, an estimated 22 percent of all San José households had incomes at the extremely low-income level for a three-person household. Eighteen percent of family households and 34 percent of nonfamily households were also at this income level (See Table B).¹⁴ During the same time, 52 percent of all San José households had incomes that fell within the low-income range for a 3-person household, 48 percent of family households and 67 percent of nonfamily households were within the low-income range.

¹³ United States Department of Housing and Urban Development, <http://www.huduser.org/Datasets/IL/IL04/hud04ca.pdf>, checked on 2/7/06

¹⁴ 2004 American Community Survey (ACS) estimate, www.census.gov. These percentages are just rough estimates for several reasons: First, the Census data's income categories do not perfectly correlate with the City's income limits. Therefore, in order to calculate the number of individuals and households in each income category, the Census categories closest to the income limits were used. Secondly, the 2004 ACS does not provide detailed information on household income by household size. Therefore, although in this exercise the income limits for a three-person household were used, the actual number of persons in each household varied.

Table C: Income Distributions for San José Households, Families, and Non-Families 2004

	3-person Household Income Limit	Census Income Categories Used	# of Households within Income Limit	% of Households within Income Limit	# of Families within Income Limit	% of Families within Income Limit	# of Nonfamily Households within Income Limit	% of Nonfamily Households within Income Limit
ELI	\$28,650	\$0 - \$29,999	60,272	21.5%	35,613	18.2%	28,927	34.1%
VLI	\$47,750	\$30,000 - \$49,999	40,205	14.3%	26,394	13.5%	13,695	16.2%
LI	\$76,400	\$50,000 - \$74,999	46,777	16.7%	32,188	16.4%	13,777	16.3%
MOD	\$113,950	\$75,000 - \$124,999	75,776	27.0%	55,478	28.3%	17,916	21.1%
Above MOD	>\$113,950	>\$124,999	57,914	20.6%	46,502	23.7%	10,454	12.3%
TOTAL HOUSEHOLDS	--	--	280,944	100%	196,175	100%	84,769	100%

Source: 2004 American Community Survey (estimate) & U.S. Department of Housing and Urban Development

In 2004, approximately 39 percent of all householders under the age of 25 had incomes in the extremely low-income range for a household of three while 96 percent had moderate incomes or less (See Table C).¹⁵ Approximately 15 percent of householders in the 25 to 44 age group and 20 percent of householders age 44 to 64 had incomes in the extremely low-income range. Approximately 62 percent of householders' age 25 to 44 and 64 percent of householders' age 44 to 64 had moderate incomes or less. Finally, almost 40 percent of San José senior householders (age 65 and over) had incomes within the extremely low-income range, and 86 percent had incomes at or below the moderate-income level.

Due largely to the technology sector's historical gains and losses, Silicon Valley's economy has been in flux since 2000.¹⁶ Between 2000 and 2004 Santa Clara County lost 13.44 percent of its jobs¹⁷. Between the same period, the unemployment rate of the region and the county increased from 3.9 percent to 7.7 percent. In June 2006, the unemployment rate in the County had stabilized to approximately 5 percent.

According to the State of California Employment Development Department, San José's annual unemployment rate jumped from 3.5 percent in 2000 to 9.5 percent in 2002 and 2003 (See Chart 4).¹⁸ This rapid rise in unemployment reflected the region's major

¹⁵ 2004 American Community Survey (estimate), www.census.gov (Unfortunately these numbers have not been updated since 2004)

¹⁶ Hurd, John, Economic Development Alliance for Business
<http://www.edab.org/newsletter/Quarterly/1stQuarter2004Files/TheBalanceoftheBay.html>

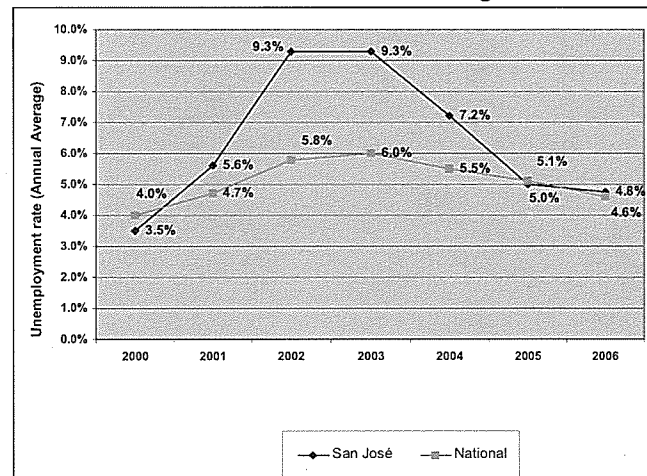
¹⁷ ABAG 2005 Projections

¹⁸ U.S. Department of Labor, Bureau of Labor Statistics, Bureau of Labor Statistics Data, www.bls.gov, viewed on 1/12/07

downsizing in the technology sector, including the closure of entire companies.¹⁹ In 2000, San José's average unemployment rate was one-half a percentage point below the national average. The following year San José's unemployment rate surpassed the national average and stayed well above it through 2005. Currently the City of San José's unemployment rate (4.6%) is below the State unemployment rate (4.8%).

Because unemployment rates do not capture those individuals who have either stopped looking for a job or who have left the area because of poor employment prospects, they are not the best measure of an area's economic vitality. Arguably, a better economic indicator is the total number of employed individuals in an area. In December of 2000, during the height of the technology boom, San José had 484,900 employed persons in nonfarm jobs, or an average of 471,600 for the entire year.²⁰ By December of 2002, the number of employees in the region had decreased to 409,600, followed by another drop to 401,800 employees the following year.

**Chart 5: Annual Unemployment Rates:
San José & National Average**



Source: U.S. Department of Labor, Bureau of Labor Statistics

The California Employment Development Department estimates that in December of 2006, San José's nonfarm employees had grown to 444,300, which is almost 10 percent lower than the employment high of 484,000 in December 2000.

Housing in San José

Housing Growth

According to the U.S. Census' American Community Survey, in 2005, San José had a total of 299,650 housing units, a 6 percent increase over the number of units in 2000 (See Table D).²¹ From 1990 to 2000, the total number of residential units in San José increased by almost 15 percent.²² From 2000 to 2005, developments with five to nine

¹⁹ Hurd, John, Economic Development Alliance for Business, <http://www.edab.org/newsletter/Quarterly/1stQuarter2004Files/TheBalanceoftheBay.html>

²⁰ California State Employment Development Department, <http://www.edd.ca.gov/eddhome.htm>; checked on 1/30/06

²¹ 2000 U.S. Census and 2004 American Community Survey, www.census.gov

²² 1990 and 2000 U.S. Census, www.census.gov

and twenty to forty units saw the greatest growth, with an increase of over 33 percent. Although, since 2000, the number of housing units increased at roughly the same rate as the number of new households, (both increased by approximately 6 percent), the need for additional housing units remains strong. The City continues to work to make up for a deficit in the number of housing units created during the 1990s when construction did not keep pace with population increases, and fill the gaps between the available units and the needs of San José's residents in terms of affordability and appropriate size and type.

Table D: Total Housing Units

Number of Units				Percent Change	
	1990	2000	2005	1990-2000	2000-2005
Total Units:	245,041	281,706	299,650	14.96%	6.37%
1 detached	150,207	161,962	162,845	7.83%	0.55%
1 attached	24,729	27,560	28,589	11.45%	3.73%
2	5,370	5,751	5,560	7.09%	-3.32%
3 or 4	15,335	17,403	16,884	13.49%	-2.98%
5 to 9	12,379	13,525	18,038	9.26%	33.37%
10 to 19	14,162	12,922	16,003	-8.76%	23.84%
20 to 49	12,501	11,443	14,919	-8.46%	33.38%
50 or more	10,358	20,121	24,522	94.26%	21.87%
Mobile home	11,743*	10,658	12,241	N/A	14.85 %

* "Mobile home or trailer" ** "Other"

Source: 1990 & 2000 Census & 2005 American Community Survey (estimate)

Tenure and Occupancy

In 2005, 64 percent of the units in San José were owner-occupied, and 36 percent were renter-occupied.²³ Nationally, the homeownership rate was 67 percent. In 2000, the homeownership rate in California was approximately 57%. In San Jose almost 90 percent of all owner-occupied units were single-unit homes (detached and attached). Just over half (54 percent) of all rental units were in developments with 5 or more units, while one-fifth were single-units (detached and attached).

²³ 2005 American Community Survey (estimate), <http://www.census.gov>

In 2005, the majority (61%) of households in San José resided in owner-occupied units.²⁴ In 2005, the majority of studio and one-bedroom units in San José were rentals. One-person households made up 28 percent of all rental units in San José and only 21 percent of all owner-occupied units. Households with four or more people resided in 38 percent of all owner-occupied units in San José

and 28 percent of all rental units. Four-person households had the highest percentage of households living in owner-occupied units (38%), while one-person and four-person households had the highest percentage of households living in rental units (28%).

A certain level of vacancy allows for mobility and provides choices. In general, a healthy housing market is expected to maintain a 5 percent vacancy rate for rental units and a 2 percent vacancy rate for ownership units.

In 2000, the average vacancy rate for rental housing in San José was only 1.5 percent (See Table E).²⁵ The following year, the average vacancy rate increased over four-percentage points to 5.7 percent, and continued rising to a high of 8.1 percent in 2003. By 2005, the vacancy rate had dropped to an average of 6.6 percent. Currently in 2006, the vacancy rate has fallen to 4.8%. Since 2002, the rental occupancy rate in San José has fallen 3.2%. In contrast, the ownership housing occupancy rate rose slightly from 0.4 percent in 2000 to 0.6 percent in 2005.²⁶

Housing Costs

There is a striking need for affordable housing in San José due to the high cost of living in the area. In April 2006, the median sales price for a single family home in San José was \$775,000, a 12.2 percent increase over the same month in 2005 (See Chart 6).²⁷ During the same month, the median sales price for a condominium in San José was \$500,000, a 20.5 percent increase over the previous year. From April 2000 to April 2006, the median price for a single-family home in San José rose from \$435,000 to \$775,000, an increase of

Table E: San José Rental Housing Vacancy Rates

Average Rental Vacancy Rates for San Jose	
Year	Vacancy Rate
2000	1.5%
2001	5.7%
2002	7.8%
2003	8.1%
2004	7.2%
2005	6.6%
2006	4.8%

Source: Real Facts

²⁴ 2005 American Community Survey (estimate), <http://www.census.gov>

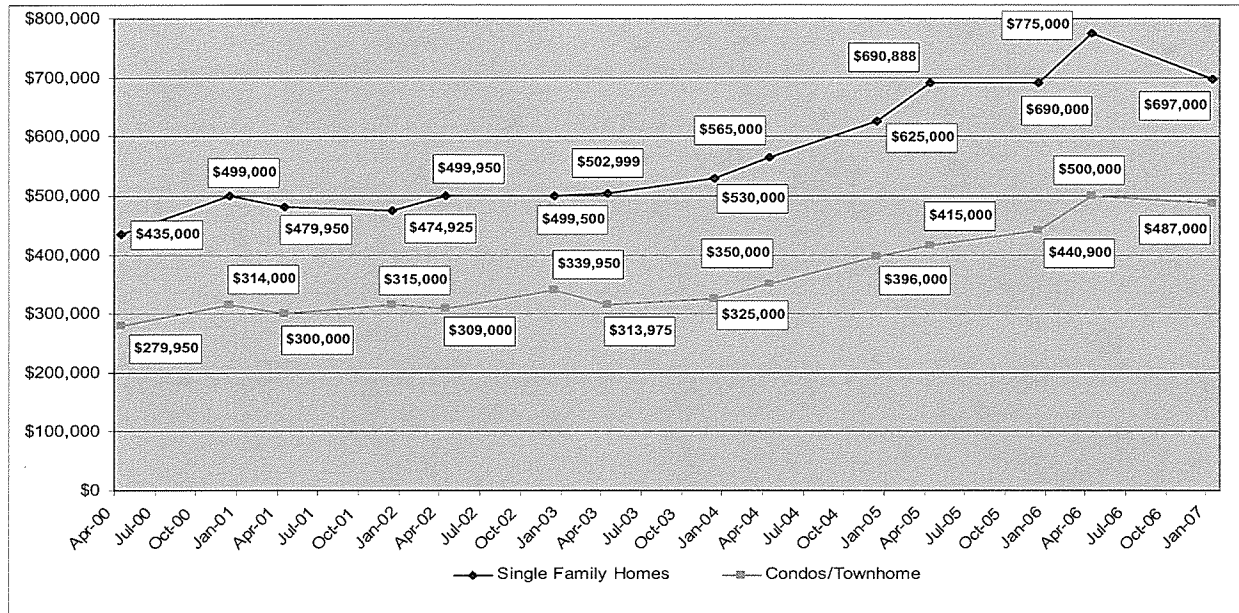
²⁵ REALFACTS, Market Overview of San José for fourth quarter of 2006

²⁶ US Census 2000 and US Census American Community Survey 2005

²⁷ Santa Clara County Association of Realtors (SCCAOR), <http://www.sccaor.com/>

78.2 percent. Over the same time period, the median condominium price grew from \$279,950 to \$500,000, a 78.6 percent increase.

Chart 6: Median Single Family Home & Condominium Prices 2000 – 2007

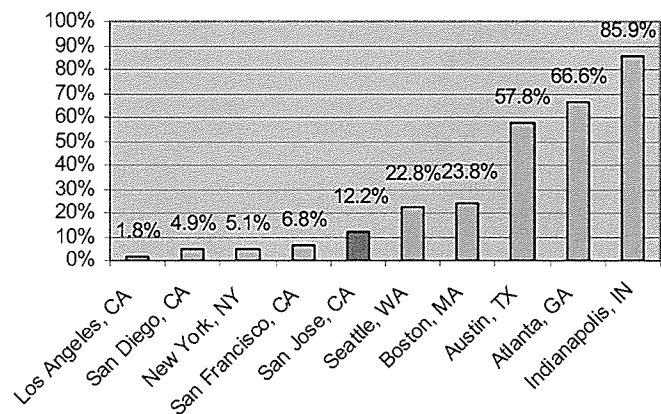


Source: Santa Clara County Association of Realtors

According to the Santa Clara County Association of Realtors, in January 2007 the median sales price for a single-family home in San Jose fell to \$697,000, an 11% decline from April 2006²⁸. Meanwhile, the median sales price for condominiums and townhouse was \$ 487,000, a 2% decline from April 2006.

The National Association of Homebuilders publishes reports on housing affordability throughout the United States. Its Housing Opportunity Index compares median family incomes and median sales prices for 180 housing markets throughout the country. The percentage represents the percent of median-priced homes in the area that are affordable to the area's median income. For the third quarter of 2006, approximately 12 percent of homes in the San José Metropolitan Region were affordable to residents with the median household income. Of the ten metropolitan regions studied, San José

Chart 7: % of Homes Affordable to Median Income Households (By Metropolitan Region)



Source: National Association of Homebuilders, 2006

²⁸ Santa Clara County Association of Realtors (SCCAOR), <http://www.sccaor.com/>

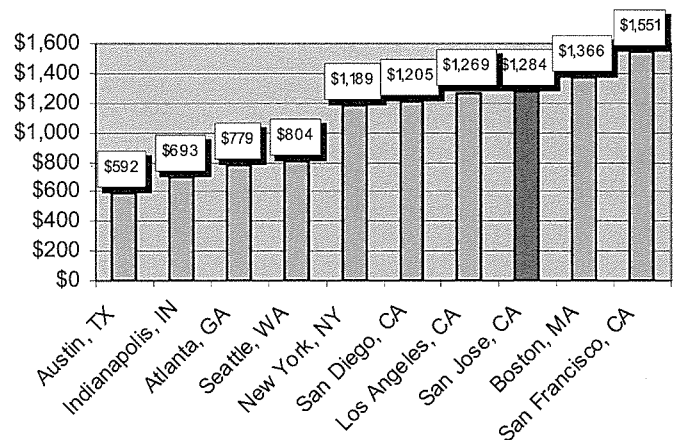
was the fifth least affordable, behind Los Angeles, San Diego, New York, and San Francisco (See Chart 7).

Fair Market Rents (FMRs) are estimates of the rental and utility costs that would be required to rent privately owned, decent, safe, and sanitary rental housing of a modest nature with suitable amenities. The federal government adjusts these figures on an annual basis. Although these rents typically lag behind actual rents, they offer a means for comparing rent levels among various cities.

Of the ten Metropolitan Areas analyzed by the National Association of Homebuilders, only Boston and San Francisco had higher fair market rents for two-bedroom units than San José (See Chart 8).

Although San José continues to have one of the most expensive rental markets in the nation, since 2000, the City's residential rents for all types of units combined, have declined significantly. In 2006, the average monthly rent for residential units in San José was \$1,347, a 16 percent decrease from 2000 (See Table F).²⁹ Three-bedroom units were the only rental type to cost, on average, more in 2006 than in 2000 (\$2,220 and \$1,716 respectively). Studios had the greatest decline in rent over the five years, dropping from \$1,275 in 2000, to \$963 in 2006, a 24% decrease.

Chart 8: Fair Market Rents for a Two-Bedroom Unit*



Source: US Department of Housing and Urban Development, 2007 *Metropolitan Area

Table F: San José Average Monthly Rents 2000 – 2006

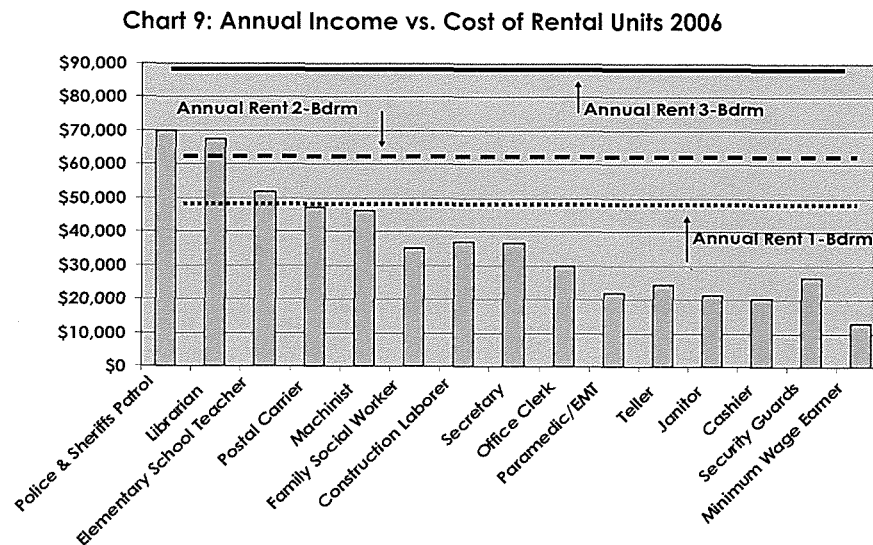
Unit Size	Average Monthly Rent							% Change 2000-2006
	2000	2001	2002	2003	2004	2005	2006	
All Rental Units	\$1,613	\$1,669	\$1,356	\$1,268	\$1,243	\$1,256	\$1,347	-16.50%
Studio	\$1,275	\$1,355	\$994	\$913	\$917	\$912	\$963	-24.50%
One Bedroom	\$1,484	\$1,541	\$1,231	\$1,135	\$1,095	\$1,110	\$1,192	-19.70%
Two Bedroom	\$1,866	\$1,904	\$1,537	\$1,546	\$1,553	\$1,564	\$1,560	-16.40%
Three Bedroom	\$1,716	\$2,896	\$2,216	\$2,253	\$2,166	\$2,197	\$2,220	29.40%

Source: Real Facts

²⁹ Source: REALFACTS, Market Overview of San José for fourth quarter of 2006

Housing Needs in San Jose

San José – and Santa Clara County as a whole – is a diverse community with a range of housing needs. High housing prices make it difficult for moderate-income families, let alone minimum-wage workers, to afford housing. The following chart compares the median annual income for a few representative professions with the annual salary needed to afford one, two, and three bedroom units in San José, assuming the individual pays 30 percent of their income on rent (See Chart 9).³⁰



Source: Bureau for Labor Statistics and Housing Policy

Of the professions listed, only Police Officers and Librarians would be able to afford a typical two-bedroom unit in San José on their own. Elementary School Teachers and Postal Carriers could afford a one-bedroom unit on their own. None of the professions listed above could comfortably afford a three-unit bedroom apartment on their salary.

An individual earning the State minimum wage of \$6.75 an hour or \$12,960 annually, could not afford to rent their own unit in San José even if they spent half of their income on rent (See Table G).³¹ Furthermore, a household consisting of two minimum wage earners who spent half of their combined income on rent, could not afford a one-bedroom unit in San José. Individuals working in occupations earning less than \$25,000 annually, such as janitors or cashiers, could not afford a one-bedroom rental unit in San José even if they spent 50 percent of their income on housing. According to the 2005 American Community Survey, of the 417,437 employed civilian residents in San José (who are 16 years or older) 155,952, or approximately 37%, earn less than \$25,000 annually. These workers are largely concentrated in the retail and food service industry. In contrast, the top wage earner in Table G, physicians/surgeons, earned on average double the hourly wage needed to afford a three-bedroom unit. These findings

³⁰ Sources: REALFACTS, Market Overview of San José for fourth quarter of 2006, and California State Employment Development Department, occupational data for 3rd quarter 2006, <http://www.edd.ca.gov/>, viewed on 3/07

³¹ Sources: REALFACTS, Market Overview of San José for fourth quarter of 2005, and California State Employment Development Department, occupational data for 3rd quarter of 2005, <http://www.edd.ca.gov/>, viewed on 3/13/06

illustrate the increasing difficulty that low-income families face in the San José rental market.

Table G: Common Occupations: Wages and Housing Affordability 2005

	Median Hourly Wage	Median Annual Wage	Affordable Rent: 30% of income	Affordable Rent: 50% of income
Physicians/Surgeons	\$74.04*	\$153,999*	\$3,849	\$6,416
Dentists	\$66.90	\$139,146	\$3,478	\$5,797
Computer Software Engineers (applications)	\$48.10	\$100,036	\$2,500	\$4,168
Police & Sheriff Patrol	\$33.57	\$69,846	\$1,746	\$2,910
Elementary School Teacher	N/A	\$51,932	\$1,298	\$2,163
Postal Carrier	\$22.69	\$47,199	\$1,179	\$1,966
Construction Laborer	\$17.73	\$36,873	\$921	\$1,536
Secretary	\$17.71	\$36,828	\$920	\$1,534
Paramedic/EMT	\$10.57	\$21,975	\$549	\$915
Security Guard	\$12.72	\$26,459	\$661	\$1,102
Teller	\$11.72	\$24,376	\$609	\$1,015
Janitor	\$10.18	\$21,187	\$529	\$882
Cashier	\$9.83	\$20,427	\$510	\$851
Minimum Wage Earner	\$6.75	\$12,960	\$324	\$540

*Mean wage (median wage was unavailable)

**Median rent in San Jose in 2006 was \$1,347.00

Source: California State Employment Development Department

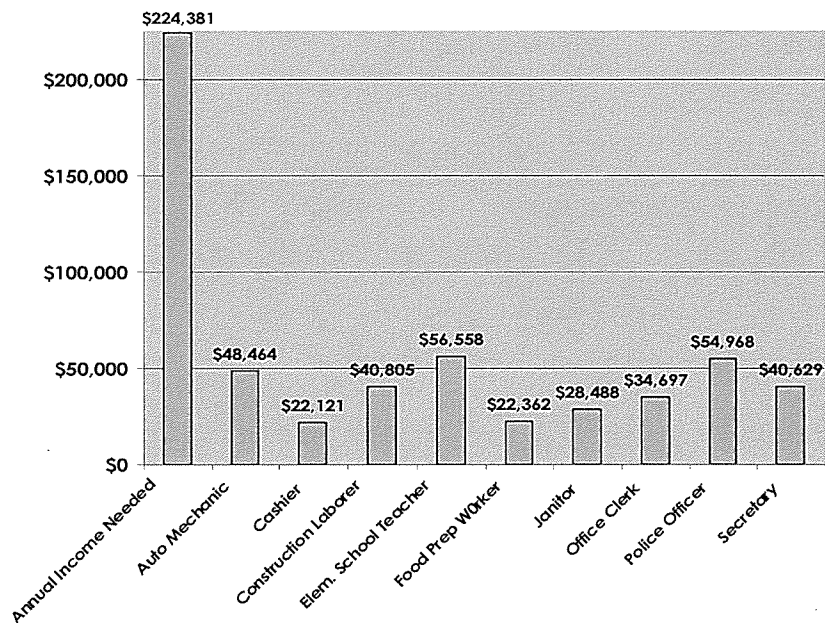
According to the Center for Housing Policy's "Paycheck to Paycheck" report, the median priced home in San José in the third quarter of 2006 was \$655,000.³² Using the average interest rate for the period, and assuming a 10 percent downpayment and the use of private mortgage insurance, the report finds that in order to qualify for a mortgage to purchase a home at \$655,000, a household would need to earn at least \$224,381 annually to afford the median priced home in San José.³³ Chart 10 compares the estimated annual income needed to qualify for such a mortgage with the salaries of some common occupations. None of the individuals working in the occupations listed would have been able to purchase a median priced home in San José on their own. Furthermore, even if two persons working in these occupations combined their incomes, they would still be unable to afford a median priced home in San José.

³² The Center for Housing Policy, <http://www.nhc.org/housing>, viewed on 3/07

³³ The calculations include principal, interest, taxes, and insurance.

The National Housing Conference and the Center for Housing Policy completed a report in 2006 entitled *Increasing the Availability of Affordable Homes: A Handbook of High-Impact State and Local Solutions*³⁴ to focus on solutions to the affordable housing crisis. The report demonstrated that there are policies and practices already working to bring homes within reach of working families across the country. No single policy or approach is the cure to the growing shortage of affordable homes. However, the National Housing Conference suggests several policies and approaches that may help to combat the growing affordability problem in San Jose. These possible solutions include: community land trust, employer-assisted housing/downpayment assistance, creating Housing Trust Funds, impact fee deferrals/waivers, inclusionary zoning/developer incentives, permit expediting/fast-track authority, regulatory reform, tax increment financing, transit oriented development, and vacant and abandoned properties. These strategies have revealed potential in different cities across the country and point towards new and innovative ways to address the issue of affordable housing.

Chart 10: Annual Income Needed to Purchase a median Priced Home in San Jose



Source: Center for Housing Policy and the California State Employment Development Department

³⁴ *Increasing the Availability of Affordable Homes: A Handbook of High-Impact State and Local Solutions*, Center for Housing Policy for Homes for Working Families, January 2007.

Cost Burden

Housing cost burden affects both renters and homeowners in San José (See Table H).³⁵

Table H: Household Income by Tenure 2000

Household Income by Tenure			
Income	# of Renter Households	# of Owner-Occupied Households	Total Households
<=30% MFI	22,684	10,755	33,439
>30 to <=50% MFI	17,219	12,489	29,708
>50 to <=80% MFI	14,754	15,167	29,921
>80% MFI	50,887	132,419	183,306
Total	105,544	170,830	276,374

Source: HUD CHAS Data 2000

Over three-fourths of San José renter households earning less than 30 percent of the area median income paid in excess of 30 percent of their income on housing, and over 60 percent paid in excess of 50 percent of their income on housing (See Table I).³⁶ Seventy percent of owner-households who earned less than 30 percent of the AMI paid more than 30 percent of their income on housing, while 56 percent paid more than 50 percent on housing. In total, 39 percent of all renter households paid in excess of 30 percent of their income on housing and 18 percent paid in excess of 50 percent of their income on housing. In addition, 29 percent of San José's owner-occupied households spent greater than 30 percent of their income on housing, and 10 percent spent greater than 50 percent on housing.

Table I: Percent of Income Spent on Housing by Tenure & Household Income 2000

Household Income	% of Renter Households		% of Owner Households	
	>30%	>50%	>30%	>50%
<=30% MFI	76.6%	61.6%	69.9%	55.9%
>30 to <50% MFI	71.5%	24.4%	56.7%	34.2%
>50 to <80% MFI	44.5%	5.7%	53.6%	20.9%
>80% MFI	10.5%	0.4%	20.2%	2.7%
Total Households	39.4%	18.2%	29.0%	10.0%

Source: HUD CHAS Data 2000

³⁵ HUD CHAS Data for 2000, <http://socds.huduser.org/chas/index.html>

³⁶ HUD CHAS Data 2000, <http://socds.huduser.org/chas/index.html> (Unfortunately HUD CHAS Data is only updated for the decennial census)

Overcrowding

Overcrowding typically occurs in high-priced, tight housing markets. When affordable housing is lacking, overcrowding is an issue impacting primarily lower-income households. While social and cultural factors play a role in overcrowding, it typically affects households with large families, single parents, and renters with children.

HUD considers households with 1.01 or more persons per room to be “overcrowded” and households with 1.51 or more persons per room to be “severely overcrowded.” In 2000, 18 percent of all San José households lived in overcrowded conditions, including 11 percent of which were severely overcrowded (See Table J). Renter households in San José were much more likely to live in overcrowded housing than their homeowner equivalents (29.3% of renters were living in an overcrowded situation versus 11.5% of homeowners). Of the nation’s ten largest cities, only Los Angeles had a greater proportion of households living in overcrowded conditions than San José.

Table J: Ten Largest Cities: % of Residents in Non-Crowded, Overcrowded and Severely Overcrowded Housing (2000)

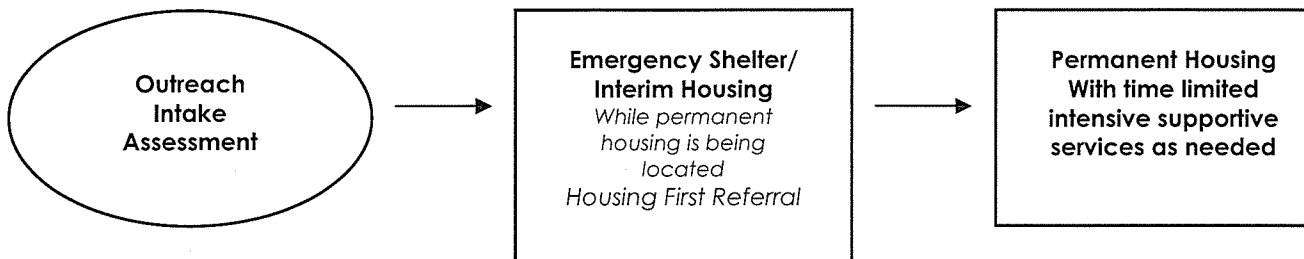
% Occupants per Room by Tenure									
City	Owner-Occupied			Renter Occupied			All		
	0 to 1.00	1.01 to 1.50	1.51 or more	0 to 1.00	1.01 to 1.50	1.51 or more	0 to 1.00	1.01 to 1.50	1.51 or more
New York	93.3	4.0	2.8	82.0	8.4	9.6	85.4	7.1	7.5
Los Angeles	86.4	5.7	7.9	66.9	8.6	24.5	74.4	7.5	18.1
Chicago	93.1	4.3	2.6	87.4	6.4	6.2	89.9	5.5	4.6
Houston	91.3	4.4	4.2	78.5	8.2	13.3	84.4	6.5	9.2
Philadelphia	96.5	2.4	1.2	92.0	4.4	3.7	94.6	3.2	2.2
Phoenix	92.8	3.9	3.3	79.4	8.9	11.7	87.5	5.9	6.6
San Antonio	92.6	4.7	2.7	85.6	7.5	7.0	89.7	5.8	4.5
San Diego	93.5	3.5	3.0	81.6	7.2	11.2	87.5	5.4	7.2
Dallas	91.3	4.2	4.6	80.0	7.4	12.6	84.9	6.0	9.1
San Jose	88.5	5.7	5.8	70.7	10.1	19.2	81.7	7.4	10.9

Source: 2000 US Census

Homelessness

Homelessness is a regional concern that crosses jurisdictional boundaries. Consequently, regional solutions and a unified approach are needed. Since 2003, the City of San Jose's Housing Department has adopted the Housing First strategy, which was pioneered by Beyond Shelter, a Los Angeles-based organization providing assistance to the homeless. The Housing First approach is to help homeless families move into permanent housing and then provides services to help them regain self-sufficiency. This model is an alternative to traditional models that transitions the homeless from shelters, to transitional living, and then to permanent housing. The approach is outlined below.

Housing First Approach Model



In 2007, the City of San José completed the point-in-time count of homeless persons. According to the survey, approximately ____ homeless individuals live on the streets of San José. An additional ____ homeless people were counted in emergency shelters, transitional housing, and domestic violence shelters. Of the ____ homeless people identified in the 2007 point-in-time count, twenty-four percent were in shelter facilities and seventy-six percent were considered unsheltered. San José's homeless count translates to approximately ____ persons who were homeless some time during 2006. Based on population estimates from the US Census Bureau, the annual estimate of homeless population represents ____% of San José's total population. (Precise figures to be included in final report after its release June 16, 2007)

A profile of the City's homeless population was compiled based on the point-in-time count and comprehensive interviews of 716 of the City's homeless residents. The interviews were conducted from late January 2007 to mid-February 2007. While individuals comprised the majority of the homeless population, twenty percent reported having children; only four percent reported living with their children, while two percent indicated they were living with their spouse and children. Of those with children, approximately sixteen percent indicated they had children in foster care.

Adult males comprised the majority (72%) of the homeless population identified during the point-in-time count. The proportion of the homeless population that is female increased from twenty-one percent in 2004 to twenty-six percent in 2007³⁷. Approximately forty-two percent of the survey respondents had been homeless for less than six months, while twenty-one percent of the respondents had been homeless for more than three years. Additionally, fifty-nine percent of the homeless surveyed respondents indicated they had been homeless only once within the past 12 months. However, nearly twenty percent has been homeless six or more times in the past three years.

³⁷ The remaining persons identified during the point-in-time count were of unknown gender (2%).

Demographically, the homeless population is diverse. The largest percentage of homeless survey respondents were Caucasian (34%) while twenty-five percent were Hispanic/Latino, twenty-four percent were African American, three percent were American Indian or Alaskan Native, seven percent were Asian or Pacific Islander, and seven percent identified with other multiple racial or ethnic groups.

The City of San Jose has many emergency and transitional housing shelters. These facilities include both beds in transitional and emergency housing that are either located in San José or received funding from the City. These facilities serve a variety of different populations including single men, single women, youth, women with children, families with children, and victims of domestic violence. Forty-two percent of the individuals surveyed indicated they usually spent the night in transitional housing, emergency or other types of shelters. However, twenty-three percent of survey respondents indicated their usual nighttime sleeping arrangement was outdoors.

At the time of the survey, approximately eighty-three percent of the homeless were unemployed, with the three leading causes of unemployment were not having a permanent address (24%), not having a phone (24%), or not having transportation (22%). Additionally, over forty-six of the survey respondents indicated they received no government assistance through General Assistance, Food Stamps, WIC, SSI/SSDI, Cal Works, Medi-Cal/ Medi-Care, Social Security or Veteran's Benefits.

The 2007 San Jose Homeless Census and Survey provides a useful measure of the City's homeless service program and whether or not the City's programs are successfully addressing the issues facing homeless individuals and families.

Special Housing Needs

Special needs groups such as persons with mental or physical disabilities, single-parent families, new immigrants, seniors, persons with HIV/AIDS, and seniors often have specific housing needs. Some of these special needs can include additional social services such as child care, medical services, social workers, transportation assistance, and deeper subsidizes. The City can address some of these needs through the development of affordable housing and the provision of rental and homebuyer assistance. The programs used to address the specific needs of these groups are discussed in detail in the City's 2005-2010 Consolidated Plan and the 2003 Analysis of Impediments to Fair Housing Choice (AI). Specifically, the AI provides an overview of laws, regulations, conditions or other possible obstacles that may affect an individual or household's access to appropriate and affordable housing. The programs will also be discussed in the forthcoming 2009-2015 Housing Element.

Construction and Rehabilitation Needs

Housing Affordability

Based on an area's median household income, the California State Department of Housing and Community Development define income categories by household size. The City of San José then uses these income categories to determine eligibility for its affordable housing programs. As of April 2007, Santa Clara County's area median income for a family of four was \$105,500. Chart 12 illustrates the income limits for Santa Clara County. The State adjusts the income limits on an annual basis.

Chart 12: San José's Projected Housing Need 2007-2014

Income Level	VLI	LI	MOD	Above MOD	Total
Units	7,522	5,506	6,388	13,844	33,206
%	22.6%	16.6%	19.2%	41.6%	100%

Source: ABAG, 2007

New Construction

In its most recent Regional Housing Needs Allocation (RHNA) report, the Association of Bay Area Governments (ABAG) forecast the number of new housing units by affordability level that each jurisdiction will need if it is to accommodate its projected population growth for the years 2007-2014³⁸.

The City works with its public and private partners to facilitate the development of the projected housing need through the provision of technical and financial assistance. ABAG has calculated that San José will need 33,206 new units by 2014 (Chart 12). While almost 40 percent of these units should be affordable to very low- and low-income households, the vast majority should be

Table K: San José Households by Housing Problems

Income Category	Total Households	% Households w/ Housing Problem	# Households W/ Housing Problems
Extremely Low	33,439	79.3%	26,517
Very Low	29,708	76.1%	22,608
Low	29,921	66.8%	19,987
Subtotal	93,068	74.3%	69,112
Moderate & Above	183,306	30.0%	54,992
Total	276,374	44.9%	124,092

Source: HUD CHAS Databook, 2000

affordable to moderate income households and above. Indeed, the largest single category of units needed is for above moderate income housing, representing 42 percent of the total. The City's Housing Department focuses primarily on the needs of low- and very low-income households, and to a lesser extent moderate-income

³⁸ As of February 22, 2007, the RHNA numbers were still waiting adoption by the ABAG Executive Board.

households. The Department relies upon private developers to satisfy the housing needs of households with above moderate incomes.

ABAG bases its projections for new housing needs on anticipated population growth in each of its RHNA area. However, the RHNA numbers do not take into consideration households that are currently residing in an inadequate housing situation including living in units with physical defects, overcrowded conditions, or with a housing cost burden. In an effort to identify the types of households that currently have a housing problem, HUD, in coordination with the U.S. Census Bureau, developed the Comprehensive Housing Affordability Strategy (CHAS), which details information on housing needs by income level. A summary of the 2000 CHAS housing needs information for San José is provided in Table K.

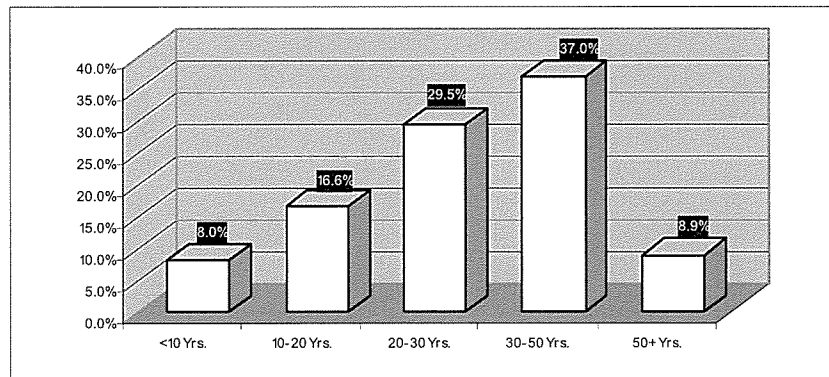
According to the 2000 CHAS data, over 124,000 of San José's households had some type of housing problem. Over half of the households with a housing problem had incomes below the moderate level for the area. With almost 80 percent of households reporting some housing problem, households with extremely low-incomes had the greatest housing needs.

Additionally *Housing Silicon Valley* quantified the future and current gap between the supply and demand of affordable housing. According to the report, 40,292 housing units or 2,000 units per year are needed to meet the demand based on future expected production and current resources and trends. The report suggests several construction strategies to assist in bridging the gap including: increasing densities in developments, particularly around transit stations; ensuring a diversity of housing types; promoting inclusionary zoning with flexibility; and promoting by-right zoning for housing coupled with good planning. The report notes that the Silicon Valley has been successful at building affordable housing for very-low and low-income households, however, enough has not been done to address the needs of extremely low income households.

Rehabilitation

While San José's housing stock is relatively new, approximately 25,000 units, or 9 percent of the total supply, were built before 1950. Age alone, however, is not necessarily an indicator of whether a unit will be substandard. Structural decay, poor workmanship, lack of basic amenities, and overcrowding are often better indicators than age of a unit's condition. In

Chart 13: Age of Housing Stock



Source: US Census 2000

fact, the City has found that housing built during the 1960s and 70s represents some of the poorest quality construction in San José.

In 2000, the City began to seek feedback from San Jose residents through a biannual survey. The 2005 survey was the fourth such survey, and it built on the information provided by the previous surveys conducted in 2000, 2001, and 2003. The survey included 1,000 randomly selected adult residents, and provided insight into City residents' satisfaction level regarding the physical condition of their neighborhoods, including the housing stock, streets, and sidewalks.³⁹ More than two-thirds (72%) of those surveyed rated the "overall physical condition" of their neighborhood as "good" or "excellent" (up from 67% in 2003), and 64% felt their neighbors share a sense of local community pride (63% in 2003). San Jose residents felt safe walking around during the day in their neighborhoods (90%), in the park nearest their house (84%), or in the downtown area (71% up from 65% in 2003). Most residents also felt safe in their neighborhoods at night (72% up from 68% in 2003). Although fewer residents felt safe in the evening hours in park nearest their houses (51%) or downtown (43%), both of these indicators have improved since 2003.

In Strong Neighborhood Initiative (SNI) neighborhoods, residents were less likely to rate the physical condition of their neighborhood as "excellent" (14% vs. 31% non-SNI areas) but were more likely to feel that their neighborhoods condition had improved over the last two years (58% vs. 47%). Based on the results of this survey, it is not surprising that the Strong Neighborhood Initiative focuses on the preservation and rehabilitation of existing affordable housing stock. Currently, the Housing Department's rehabilitation program focuses its efforts on serving the SNI areas.

Affordable Housing in San José

Affordable housing is important to ensure a high quality of life for residents, including young families with children, seniors, and those with special needs. Lack of affordable housing in a region encourages longer commutes, which diminishes productivity, curtails family time, and increases traffic congestion. It may also restrict the ability of crucial service providers – such as teachers, registered nurses, and police officers – from living in the communities in which they work. It is no wonder that Silicon Valley employers have identified the need for affordable housing as their primary concern.

According to the annual CEO Business Climate Survey conducted by the Silicon Valley Leadership Group (SVLG), almost 9 out of every 10 employers believe housing costs stand well above all other challenges to Silicon Valley companies are nearly all respondents (97 percent) cited housing costs as the most significant challenge facing working families⁴⁰. Quality affordable housing helps keep the cost of living and doing business reasonable, thus protecting the competitive edge of a region.

³⁹ City of San Jose 2005 Community Survey, Report of Survey Results, December 15-21, 2005, Fairbank, Maslin, Maullin & Associates

⁴⁰ Silicon Valley Leadership Group CEO Business Climate Survey 2006, <http://www.svlrg.net/Related%20Docs/CEOSurvey06.pdf>

While there are many types of affordable housing, housing is generally considered “affordable” if a household pays no more than 30 percent of its total income on housing costs. The term “affordable housing” typically describes residential units that have rent or price restrictions that ensure the units’ continued affordability for the longest possible time.

Community members often have misconceptions regarding the quality, residents, and neighborhood impact of affordable housing developments. Some people associate affordable housing with lower property values, deteriorated buildings, increased crime, and other social problems. In contrast, the City of San José is a proven model for the delivery of creative affordable housing solutions that benefit residents of all income levels. The Housing Department provides lower income residents with safe, affordable housing, and also supports San José as a livable and thriving community through stunning architecture and its use of progressive policies, including utilizing green building designs, transit-oriented development, and dispersing housing developments throughout the City.



CITY HOUSING POLICIES

The 1988 Mayor's Task Force on Housing developed the initial policies that governed the City's affordable housing program. Since that time, the City has adopted a series of five year plans to govern the allocation of the limited resources for affordable housing. Policies included in the Consolidated Plan, the Ten-Year Plan to End Chronic Homelessness, and the Housing Element are incorporated into the City's Five-Year Plan, contribute to the creation of a comprehensive Citywide housing vision, and ensure that affordable housing resources are distributed equitably and serve those most in need. In addition, these policies also address special circumstances or conditions that require unique responses or special attention, such as housing for disabled, senior, or homeless individuals.

Faced with competing priorities and scarce resources, the City must develop policies that balance these concerns while continuing to provide the greatest good to the largest number of residents.

Guiding Principles

The following principles form the basis for the policy framework that governs the City's affordable housing program.

Public Purpose Lending

The City is a public purpose lender, rather than a direct developer of housing. Working in partnership with developers, the Housing Department provides gap financing for the development, preservation and rehabilitation of housing. Public purpose loans are made on much more generous terms than available from commercial lenders in terms of interest rates, repayment provisions, and the like. To the extent possible, the City seeks the best return on its investment to ensure that loans are repaid and funds are returned to the City, which can be reinvested in future affordable housing projects.

Long-Term Affordability

The City's priority is to provide solutions to the housing problems of those most in need, from the extremely low-income family, to the homeless individual, to the first-time home buying teacher. Toward this end, the City's goal is to develop, preserve and maintain housing that is affordable for the longest possible time. In most cases, rental housing will remain affordable for at least 55 years.

High-Quality Development

The City is committed to developing affordable housing that makes a positive contribution to the neighborhoods in which it is located. The goal is to ensure that housing financed by the City is of excellent design and construction, and well maintained and managed. The City strives to create new housing that is attractively designed and durable and blends well into neighborhoods. Many City-financed developments have won awards for their design and construction.

Partnerships

Partnerships between the City and the development community are the foundation for the success of the affordable housing programs. The City works side by side with housing developers to implement Council-adopted policies and implement production goals.

Measuring Performance: Review of City's Performance under previous Five-Year Plan

Dispersion Policy [Council Adoption November 1988, Amended August 1997]

EXISTING POLICY: The City's Dispersion Policy is a positive statement to encourage affordable housing development throughout San José to achieve integration at the neighborhood level. The Dispersion Policy applies only to newly-constructed, City-financed housing that is affordable to extremely low-, very low-, and low-income households. The policy does not apply to moderate-income developments, projects involving rehabilitation, or the acquisition and rehabilitation of existing buildings.

In implementing this policy, the City addresses the needs of the neighborhood and promotes socioeconomic integration. No area of the City should be arbitrarily precluded from consideration as a site for affordable housing.

PERFORMANCE TO DATE: Since 1997, approximately 77 percent of the City's newly constructed affordable housing developments have been distributed outside of "impacted" census tracts.

Community Facilities [Council Adoption 1988]

EXISTING POLICY: In its Notice of Funding Availability (NOFA), the City requires that all of the projects it funds incorporate high-quality design and amenities. The amenities provided within a development may include recreation space, such as open space, play areas, or swimming pools, health care facilities, or commercial space. In addition to on-site amenities, when scoring funding applications, the City provides points based on a project's proximity to support services and facilities such as public transit, parks, recreational facilities, community centers, and shopping, during the development review process.

PERFORMANCE TO DATE: The majority of City-subsidized affordable housing developments have some type of on-site recreation facilities such as swimming pools, play areas, recreation rooms, libraries, community space, and barbecue areas that are available for resident use. Some of the developments offer amenities, such as day care centers, computer learning and community centers, that serve both the project's residents and the surrounding community. Due to legal restraints on funding sources and financial feasibility issues, these facilities are located on separate parcels from the City-assisted residential units and are financed with non-City funds.

Mixed-Income Housing [Council Adoption 1988]

EXISTING POLICY: The City's policy is to encourage integration at the project level, including market rate housing, within each housing project. The affordable units in these mixed-income developments should be indistinguishable in terms of design, construction, and amenities as the market-rate units.

The City has been fortunate to work with housing developers in "80-20" and "60-40" deals, in which a portion of the units are market-rate and the remainder are affordable (for example, in 80-20 deals, 20% are affordable). These projects represent an important resource, for they often do not require any City subsidy.

PERFORMANCE TO DATE: Over the last five years, the Housing Department has not assisted in the construction of any new mixed-income housing developments. However, projects produced under the inclusionary housing policy have been required to produce 20% of the units at affordable housing prices with the remainder priced at market rate. This has resulted in the development of 665 affordable units in market rate developments.

RECOMMENDED POLICY CHANGE: Amend the Mixed Income Housing Policy to include language that states to the extent feasible, the City encourages ELI units mixed effectively among other low-income and market rate units

Single-Room Occupancy Policy [Council Adoption May 1997, Amended 2006]

EXISTING POLICY: The City of San José Zoning Ordinance defines Single Room Occupancy (SRO) Living Unit Facilities as residential facilities in which individual secure rooms, of a smaller size than normally found in multiple dwellings, are rented to one-or two-person households.

SRO developments provide invaluable affordable housing opportunities for individuals and two-person households in close proximity to transit and neighborhood services. The City has four main criteria when considering the construction of a new SRO development:

- ⌘ *Location* – SROs can be located in any area of the City, including the Downtown core. Residents of future SROs located in the Downtown core will benefit from the close proximity to an abundance of services, public transportation options, and jobs.
- ⌘ *Parking* - The SRO ordinance allows for parking space reductions given certain conditions, such as its proximity to public transportation. All SRO developments must be located within 1,200 feet of public transportation.
- ⌘ *Management* - Every SRO development, whether or not it has received financing from the City, must have a Housing Department approved management plan which includes the provision of 24-hour on-site management.
- ⌘ *Amenities* - Every SRO development should have laundry facilities, a communal kitchen, and public meeting areas on site. Every unit must have a refrigerator and some appliance for heating food. The development must have at least one bathroom for every two units. All SRO developments should be located within 2,000 feet of neighborhood retail services, or within 1,200 of public transportation with direct access to such services.

PERFORMANCE TO DATE: To date, the City has assisted in the development of over 1,000 SRO units, 36 percent of which are affordable to extremely low-income persons, 54 percent to very low-income persons, 6 percent to low-income persons, and the remaining 4 percent to moderate income residents. All of the City Council Districts except for Districts 2, 8, 9, and 10, have an SRO development within their boundaries. District 3 has four such developments, District 7 has three, and District 6 has one development.

For-Sale Housing [Council Adoption 1988]

EXISTING POLICY: Although the City has historically focused its funding on multifamily rental housing, ownership housing also forms an important component of its affordable housing program. While San José's median family income is high compared to other jurisdictions, so are the City's housing prices, making it a challenge for even those residents earning the median income to buy a home without assistance. To help San José residents purchase their first home, the City has several programs:

- (1) Forward Commitments-The City works with developers to make a commitment, prior to the completion of a for-sale development, to provide second mortgages to its future residents.
- (2) State Funding-The City applies for State funding, through programs such as the Building Equity and Growth in Neighborhoods Program (BEGIN), to provide second mortgage assistance to first-time homebuyers purchasing units in newly-constructed developments.
- (3) Neighborhood Housing Services of Silicon Valley (NHSSV)-The City partners with NHSSV to serve first-time homebuyers with mortgage assistance, education, and counseling.
- (4) Teacher Homebuyer Program-The City administers the San José Teacher Homebuyer Program which provides downpayment assistance to San José public school teachers.

- (5) San José State Faculty Homebuyer Program-The City partners with San José State University faculty to provide second mortgage assistance to SJSU faculty to enable them to purchase their first home.

PERFORMANCE TO DATE: To date, the City has provided financing for more than 850 units of affordable for-sale housing, 176 for extremely low-income households, 39 for very low-income households, 59 for low-income households, and 583 for moderate-income households. Recently completed for-sale developments include Las Mariposas, Mid-Town Plaza, and Tuscany Hills.

Additionally, the City has assist 600 for-sale units for teachers through the Teacher Assistance Program. Since 2005, the Teacher Homebuyer Program (THP) has assisted 48 low-income households, 2 very low-income households, and 59 moderate income households.

Production Policies: Preserving Units At-Risk

Acquisition/Rehabilitation Policies [Council Adoption 1988]

EXISTING POLICY: The City encourages the acquisition and rehabilitation of affordable housing, not only because it helps improve dilapidated housing, but also because it results in the addition or preservation of affordable units. In considering whether to finance the acquisition/rehabilitation of an existing rental complex, City policy requires that at least one of the following criteria is met:

- 1) **Neighborhood Improvement:** the existing housing development causes serious "blight" to the surrounding neighborhood, and the rehabilitation of the project would make a significant contribution to revitalizing the neighborhood;
- 2) **Preservation Project:** the apartment complex was funded by the U.S. Department of Housing and Urban Development (HUD) and there is the potential that the HUD restrictions will expire, resulting in the units' rents increasing to market rate; or
- 3) **Economic Benefit:** when it is financially advantageous for the City, such as if the amount of gap financing being requested is extremely low or the needed per-unit subsidy is very low.

PERFORMANCE TO DATE: The City has assisted in the acquisition/rehabilitation of 3,126 units and 36 shelter beds. Of these units, 28 percent are targeted to very low- and extremely low-income households, 72 percent are targeted to low-income households, and less than 1 percent are targeted to moderate-income households, some of these units are used as manager units.

Housing Preservation [Council Adoption June 1998]

EXISTING POLICY: In the late 1990s, the City became concerned about the number of affordable housing units at risk of becoming market rate due to expiring project-based Section 8 contracts or the potential prepayment of federally insured mortgages. To address these concerns, the City Council approved a series of actions to foster the preservation of these affordable units, including lobbying the federal government to increase both the federal Fair Market rents and funding for Section-8 programs; supporting efforts at the State level to address Section 8 issues; increasing the availability of affordable rental housing and setting aside some of these units for Section 8 Voucher holders; providing tenant/owner education on the issue of expiring Section 8 contracts; and creating incentives to keep developments affordable.

Based on the availability of funds, the federal government renews some of the Section 8 contracts on a year-to-year basis. However, some of the projects require other types of assistance to maintain them as affordable, such as purchase by a nonprofit, or financial subsidies.

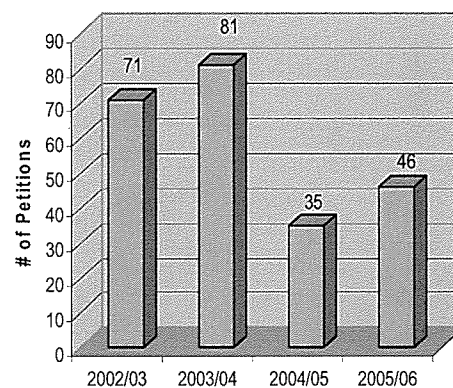
PERFORMANCE TO DATE: Since 1998, 2,706 units in at-risk developments have been preserved. The vast majority of the at-risk developments are now owned by nonprofits with an interest in preserving the units as affordable. Some of the units owned by profit motivated entities were preserved due to the willingness of the owners to renew their Section 8 contracts for one to five years. However, the preservation of other units in developments owned by for-profit entities required financial subsidies. These subsidies largely came from non-City sources, such as tax-exempt and taxable bonds, and low-income housing tax credits.

According to the National Housing Trust, from 1995-2005 the City of San José lost 1,086 project-based multi-family HUD assisted units. Although units were lost, the residents who resided in these units were given vouchers so they could remain in their unit.

Rental Mediation and Arbitration Ordinance [Council Adoption September 1979, Amended 2002 and 2003]

EXISTING POLICY: On September 7, 1979, which was amended in 2002 and 2003, the City Council adopted an ordinance establishing the San José Advisory Commission on Rents and the Rental Dispute Mediation and Arbitration Process and the Rental Dispute Mediation and Arbitration Hearing Process. The ordinance restricts annual rent increases for apartment units in triplexes or larger built prior to September 7, 1979, to a maximum of 8 percent after twelve months and 21 percent if it had been longer than twenty-four months since the previous rent increase. The ordinance allows tenants to petition the Rental Dispute Program to contest rent increases beyond the allowable rates, service reductions, or violations of basic rights.

Chart1



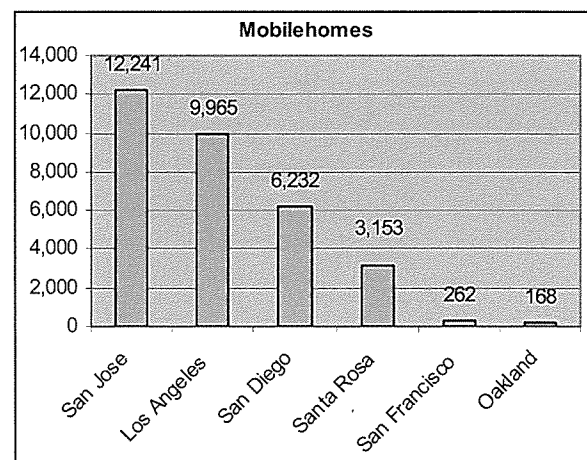
In addition the ordinance requires that owners of units covered by the Rental Mediation and Arbitration Ordinance: (1) issue a 90-day "No Cause" notice in a slow rental market, or 120-day "No Cause" notice in a tight rental market; (2) issue a 60-day "No Cause" notice along with an offer allowing the tenant to choose to have the final date of the lease eviction determined by an arbitrator; (3) serve the tenant a "3-day" notice to correct a violation of the lease or vacate the premises in accordance with State law. The ordinance does not prevent a landlord from evicting a tenant if the tenant is in violation of the terms of the lease; (4) tenants who have lived in the units for less than one-year may be served a 30-day "No Cause" notice, consistent with State law; (5) limit the ability of a property owner to pass through as rent the cost of an equity refinance except in cases of extreme hardship to the landlord; (6) increase civil penalties for owners who violate the Ordinance; (7) create a civil cause of action under the Ordinance for illegally evicted tenants; (8) require property owners to disclose to potential buyers that a building is subject to rent control; and (9) create a right for the recovery of attorneys' fees by any prevailing party in a civil action brought under the Ordinance.

PERFORMANCE TO DATE: Currently, there are approximately 42,500 rental units covered under the City's Rental Mediation and Arbitration Ordinance. From FY 2002/2003 through FY 2005/2006, 233 petitions were filed with the Rental Dispute Program regarding rent increases, code issues, and 60-day notices to vacate premises. Over half (57%) of the petitions filed related to housing codes or service reductions. The majority of the landlords in these cases agreed to resolve the complaints voluntarily. Twenty-one percent of the petitions concerned rent increases, and 15 percent (or 35 petitions) dealt with 60-day notices to vacate, including 29 requests for arbitration and six requests for mediation. The remaining 18 petitions (7% of the total petitions) were deemed ineligible under the City's rent control ordinance. Chart 1 provides the number of petitions filed for each of the fiscal years.

Mobilehome Rent Ordinance [Council Adoption 1985]

EXISTING POLICY: In 1985, the City Council adopted a rent control ordinance specifically for mobilehomes. The Mobilehome Rent Ordinance applies to mobilehome lots that were issued plumbing, electrical, or sewer permits prior to September 7, 1979. The ordinance allows mobilehome park owners to increase rents between 3 and 7 percent annually, based on 75 percent of the Consumer Price Index. Park owners must petition for a hearing if they want to increase rents above the maximum allowable amount.

Chart 2



PERFORMANCE TO DATE: Approximately 58 mobilehome parks and 11,000 mobilehomes are covered under San José's Mobilehome Rent Ordinance. San José has the largest

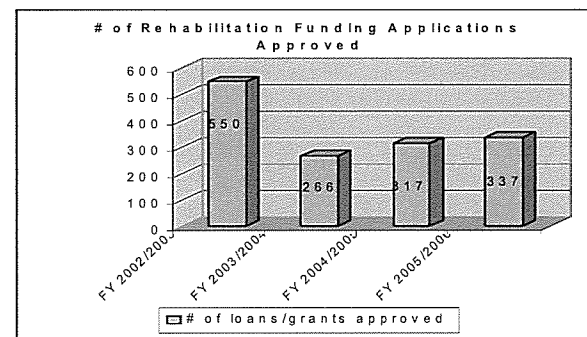
number of mobilehomes in the San Francisco Bay Area, and the most in the State (See Chart 2).

Production Policies: Improving Existing Housing

Rehabilitation [Council Adoption 1995 {for 75% rule} and 2000 {for adoption of SNI}]

EXISTING POLICY: The mission of the Housing Rehabilitation Program is to preserve and improve the supply of decent, safe, and sanitary housing that is affordable to lower-income families, and where appropriate, ensure long-term affordability and contribute to neighborhood revitalization. The City's Housing Rehabilitation Program provides loans, grants and technical assistance to help property owners repair and improve their primary home, or in some cases, their rental property. In 1995, the City codified the Program's emphasis on the health and safety of residents by prioritizing health and safety repairs, while de-emphasizing expensive, non-mandatory repairs.

Chart 3



The Strong Neighborhoods Initiative (SNI) is a collaborative effort between the City, the San José Redevelopment Agency, and the residents of nineteen San José neighborhoods to improve the livability of these areas while developing local leadership. Implemented in 2002, SNI was designed to improve an area's physical condition, enhance community safety, increase access to community services, and facilitate attractive neighborhoods. The City has set a target of spending 75 percent of the Housing Rehabilitation Program's funds (not including the monies used for mobilehomes) in SNI target neighborhoods. The remaining 25 percent of the Program's funds are for use citywide.

PERFORMANCE TO DATE: Between FY 2002/2003 and FY 2005/2006, the City completed 1,333 rehabilitation projects, for a total of 1,640 rehabilitated units. Over this time period, the City approved almost 1,500 rehabilitation loan and grant applications (See Chart 3) and awarded almost \$14 Million, 62 percent of which was spent in SNI areas.

The Housing Rehabilitation Program continues to focus resources within the City's Strong Neighborhood Initiative areas. The program that focuses in SNI areas is Project Alliance. Project Alliance is a comprehensive housing rehabilitation program and partnership and targets the top ten priorities within the Neighborhood Improvement Plan. The program was developed in collaboration with property owners, tenants, consultants, and other City departments to develop and implement a comprehensive revitalization plan. Over the past five years the program has assisted over 300 owner occupied properties and through City's Project Alliance, the program has provided improvements

for over 330 Multi-family units. The program goal is to improve at least 30 units of Multi-family properties annually and continue to focus resource as needed in the single family neighborhoods.

Definition of “Substantial Rehabilitation” [Council Adoption April 1993]

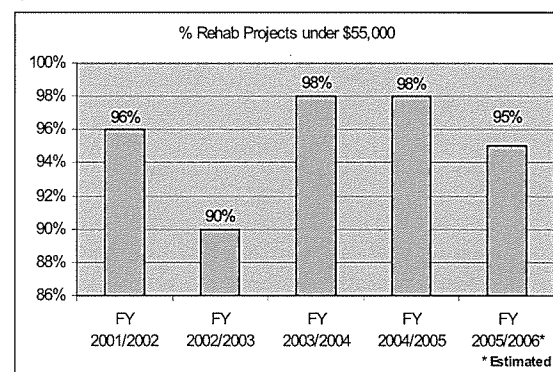
EXISTING POLICY: The City defines a “substantial” rehabilitation loan to be a loan for an amount in excess of 25 percent of the median sales price of single-family homes in San José. Such loans are limited to those properties whose after-rehabilitation value is not more than 110 percent of the median sales price of single-family homes in San José. All substantial rehabilitation loans require an affordability restriction, for a minimum of 45-years for owner-occupied properties.

PERFORMANCE TO DATE: The City of San José Housing Department currently has approximately forty substantial rehabilitation loans in its portfolio.

Cost Containment [Council Adoption January 1992]

EXISTING POLICY: In order to contain per-unit rehabilitation costs, the City adopted a policy to target at least 80 percent of the Rehabilitation Program's funding to projects costing less than \$55,000. The remaining 20 percent of the program's funds are to be targeted equally between projects that cost \$55,000-\$75,000, and those that cost in excess of \$75,000. Not only do these targets contain the per-unit rehabilitation costs, but by limiting the number of larger projects that have labor intensive processing requirements, they also free up staff time to process the smaller projects.

Chart 4



PERFORMANCE TO DATE: From FY 2001/2002 through FY 2005/2006, at least 90 percent of the City's rehabilitation projects cost \$55,000 or less.

Maximizing Funding

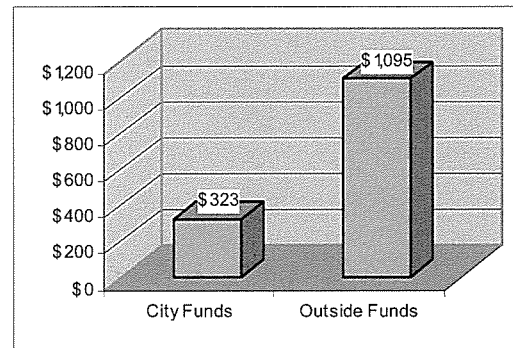
Leveraging [Council Adoption 1988]

EXISTING POLICY: In 1988, in acknowledgement of the increasing need for affordable housing and the limited amount of funding available to finance construction, the City Council made leveraging City funds with other government and private sources a priority. The current leveraging policy is \$3 of outside funds to every \$1 of City funds. To receive any points under the leveraging section of the City's most recent Notices of

Funding Availability,¹ the project must have an outside funding to City funding ratio of at least 2.0 to 1.0. To receive the maximum number of points, the project must have a leveraging ratio of \$3 or more of outside funding for every \$1 of City funds.

PERFORMANCE TO DATE: Since 1995, the City has leveraged \$2.5 outside dollars for affordable housing developments for every \$1 of City funds. Sources of outside funding include Low-income Housing Tax Credits, bond proceeds, conventional construction financing, conventional permanent financing, federal and State funds, and owner equity. As the City targets funding of additional ELI units, it should be noted that ELI households have limited ability to pay rent. Consequently, the amount of subsidy dollars needed to make these units affordable is greater, resulting in a reduced leveraging of funds.

Chart 5: Leveraging Performance, 1995-2002 (in millions)



RECOMMENDED POLICY CHANGE: In recent years, given the deep subsidy needed to make affordable housing work, the City's leveraging has been closer to 2.60:1. If the City continues to deeply subsidize extremely-low income units, the City should consider having a leveraging goal, rather than a policy. The leveraging goal should be changed to 2.5:1.

Tax Allocation Bonds [Council Adoption April 1990]

EXISTING POLICY In 1990, the City Council, adopted the "Expanded Affordable Housing Program", which supported the aggressive use of projected future Redevelopment 20%-Fund revenue to secure bonds to finance the immediate development of affordable housing. Using this bonding mechanism, the City can provide loans, based on future tax increment, to accelerate the development of critically needed affordable housing.

PERFORMANCE TO DATE: Since the policy was adopted by the Council in 1990, the City has sold more than \$450 million in tax allocation bonds to fund the development of affordable housing. It is anticipated that the City will issue an additional \$140 million in bonds to fund affordable housing construction for the next five years.

Equity Appreciation Share [Council Adoption 1993, Amended 2004]

¹ 10/23/2006 Notice of Funding Availability for new construction/adaptive reuse – family, special needs, and SROs and 3/5/2007 Notice of Funding Availability for new construction/adaptive re-use seniors.

EXISTING POLICY: California law enables local agencies administering 20% Redevelopment Funds to allow an owner-occupied unit, subject to an affordability restriction, to be sold at market value if the agency has adopted a program to “protect the 20% Funds.” This is referred to as a “buy-out” provision because the borrower pays the agency a fee, or “equity share,” in addition to the regular loan repayment requirements to remove the affordability restriction from the property. The additional fee the agency receives compensates the agency for the loss of the affordable unit and can be reinvested to make another unit affordable to moderate- or low-income households.

Prior to 1993, the City provided a number of buy-out options for persons who received loans for substantial rehabilitation, new construction, and first-time homebuyer assistance. In 1993, to ensure that the buy-out provision was standardized and easily understandable, the City Council adopted the equity share as the buy-out provision for all homeowner affordability restrictions. Typically, these equity share provisions provide that any equity realized over time be shared proportionally between the buyer and the public lender based the percentage of the value of the property. Under this mechanism, the borrower and the City share in the gain based on their contribution to the value of the property.

On loans using 20% Funds that predate the 1993 policy, the Director of Housing was authorized, on a case-by-case basis, to offer homeowners the equity share buy-out provision in place of the original restriction.

In the decade since the equity share buy-out provision was adopted, San José saw an unprecedented increase in property values. As a result, many of the borrowers of substantial rehabilitation loans who wanted to buy out of the affordability restriction under the equity share provision would be required to pay significant amounts to the City when compared to the amount they borrowed. Therefore, in 2004, the City revised the equity share buy-out provision for borrowers who have had substantial rehabilitation loans for longer than five years. The new provision requires borrowers, upon the sale of a home to an income-ineligible buyer, to pay the City a minimum of the loan principal plus 3 percent simple interest, and a maximum equity share of 50 percent of the gain in equity in the property. The policy also annually reduces the share of the equity increase borrowers must pay the City proportional to the length of the affordability restriction.

Serving Those in Need

Income Allocation Policy [Council Adoption October 1995]

EXISTING POLICY: In order to ensure that the City's housing programs focus on assisting those residents with the greatest need, the City targets 85 percent of it's funding for affordable housing to projects that serve lower-income households (those earning 80

percent of the median area income or less)². A minimum of 60 percent of the funds must be targeted to very low-income households.

No more than 15 percent of the City's affordable housing funding is targeted to moderate-income households (those earning between 81% and 120% of the area median income). Funds for moderate-income housing assisted by the City are used for ownership programs rather than for rental housing, because moderate-income rents are at or above market-rate rents.

The Housing Department has further strengthen and deepen affordability in its projects by requiring that developers provide, under the City's Project Development NOFAs, at least 25% of units affordable to ELI households.

PERFORMANCE TO DATE: From FY 2001/2002 through FY 2005/2006, 97 percent of the units for which the City provided funding assistance for new construction, rehabilitation, and acquisition/rehabilitation, were restricted to households earning low incomes or less:

Chart 6: Income Allocation Distribution FY 2001/2002 to FY 2005/2006

	Income Allocation Policy	Homebuyer Programs	New Construction (Completed)	Rehabilitation	Acquisition/ Rehabilitation	All Programs
Extremely Low-Income	NA	NA	19%	22%	1%	15%
Very Low-Income	60%	NA	40%	32%	27%	34%
Low-Income	25%		34%	45%	71%	47%
Moderate-Income	15%		7%	1%	0%	
Lower-Income Total	85%		93%	99%	100%	

In FY 2001/2002 through 2005/2006, 750, or 19 percent, of the 3,906 City-financed newly-constructed

Chart 7: New Construction Finance Commitments

	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	Total	% of total
ELI	179	235	90	13	62	579	18.01%
VLI	166	285	552	21	0	1024	31.86%
LI	514	664	29	0	181	1388	43.19%
Mod	130	93	0	0	0	223	6.94%
Total	989	1277	671	34	243	3214	100.00%

housing units were affordable to extremely low-income households. During the same time period, 579, or 18 percent, of the 3,214 new units for which the City secured finance commitments, were affordable to extremely low-income households.

² The City's target is not always 80% of the Area Median Income since the up-end may be less than 80% depending on HUD's annual published income figures.

Current Notices of Funding Availability (NOFAs) announcing the availability of funding requires that 25% of the units be affordable to ELI households.

RECOMMENDED POLICY CHANGE: Change the City's "85/15 Policy" to include deeper affordability levels within the 85%, as follows 30% (ELI), 30% (VLI), and 25% (LI). Recommend adopting a strategic policy that would emphasize the City's affirmative efforts to target housing for those most in need including extremely-low income households. The policy would memorialize the City's goal of targeting ELI individuals and families, by using the following principles: 1) partnering with service providers to better target and provide needed services to ELI households; 2) integrating ELI units with various different types and income levels within projects, 3) seeking to appropriately leverage funds to receive the greatest number of ELI units, and 4) maximizing other, outside, funding resources in order to deepen affordability.

Targeting Larger Families with Housing Assistance [Council Adoption 1988]

EXISTING POLICY: In 1988, the City Council supported the determination made by the Mayor's Task Force on Housing that certain groups, including large families, have "particular needs for housing"³. Although low-income households of all sizes may face substantial housing problems, larger families often experience significant challenges when trying to obtain housing that is both affordable and large enough to accommodate their family.

Due to the discrepancy between the number of rental units with four or more bedrooms, and the number of households with five or more persons living in rental housing, it is likely that many large households in San José experience overcrowding. This theory is further supported by census data reporting the large number of San José households living in overcrowded conditions: in 2000, 18 percent of all San José households lived in overcrowded conditions versus 15 percent of households in New York City, and 10 percent of households in Chicago.

The current rental housing market does not address the needs of larger families, as there is a lack of larger 3-4 bedrooms units. In order to help mitigate the challenges faced by large families, City policy supports giving special priority to large families for housing assistance by giving additional points in program NOFAs for projects that contain larger units. Under the NOFA scoring guidelines, three-bedroom units are allocated more points than two-bedroom units. Furthermore, the higher the percentage of the total development that is two- or three-bedroom units, the greater the number of points that can be awarded. For example, in a City NOFA dated 10/13/06, .09 points and .25 points were awarded for each percent of total project units that have two-bedrooms or three-bedrooms respectively.

³ Final Report of the Mayor's Task Force on Housing, September 27, 1988, page 11.

PERFORMANCE TO DATE: Since FY 2001/2002, 17 percent of the units, or approximately 630 units, in affordable family developments that completed or began construction had at least three-bedrooms.

Ten-Percent Set-Aside in City-Financed Developments for Section 8 Recipients [Council Adoption June 1998]

EXISTING POLICY: As part of its efforts to address the problems of expiring Section 8 contracts, the City adopted a requirement that all developers of affordable housing financed in whole or in part with City funds, set aside 10 percent of their units for Section 8 tenants. This requirement includes projects that received dollar commitments from the City, as well as those projects for which the City issued bonds. This requirement has been critical in times of high rents, when rental owners may not be as willing to rent to Section 8 tenants.

PERFORMANCE TO DATE: As of May 2007, 2,381 Section 8 voucher holders were living in affordable housing units subsidized by the City. Of the 205 affordable housing projects that have been financed and completed by the City, 44% house Section 8 Voucher holders. Of these, 31% have at least ten percent of their units occupied by Section 8 tenants.

Assistance to Teachers [Council Adoption March 1999]

EXISTING POLICY: The City has made the recruitment and retention of a quality teacher workforce a very high priority. Due to the high cost of housing in San José, many local public school teachers find the purchase of their first home out of reach. This lack of purchasing power has proven to be a significant impediment to recruiting and retaining qualified teachers in San José public schools.

In order to provide San José's youth with a quality education, in 1999, the City developed the Teacher Housing Program (THP), which provides deferred-payment second mortgage loans to help public school teachers purchase their first home in the community where they work. Although the City primarily assists teachers with first-time homebuyer's assistance, it has also provided financing for rental developments targeted to teachers, such as Pollard Plaza, an affordable family housing development that was completed in May 2005.

San José State University (SJSU) has also found it difficult to recruit and retain faculty and staff. In order to lessen the impact of San José's high housing costs, in January 2006, the City approved a pilot Homeownership Program for SJSU tenure track faculty. This program, funded by SJSU and the City, is modeled after the THP, will assist 10 to 15 low-to-moderate income faculty members with down payment assistance of up to \$65,000 each.

PERFORMANCE TO DATE: In January 2006, the City celebrated the 500th teacher recipient of its Teacher Homebuyer Program. By November 2006, the City had provided homebuyer assistance to 560 teachers for a total of over \$23 million. This achievement was made possible by effectively combining the THP funds with other assistance programs offered by the California Housing Finance Agency, the County of Santa Clara, the Housing Trust of Santa Clara County, and Neighborhood Housing Services of

Silicon Valley. The City continues to search for ways to improve the program to make homeownership a reality for even more San José public school teachers.

RECOMMENDED POLICY CHANGE: Pilot a rental assistance program that would provide move in assistance to teachers in partnership with the Silicon Valley Leadership Group and the school districts.

Additional Proactive Efforts

Land Acquisition [Council Adoption 1988]

EXISTING POLICY: The City has an aggressive program to identify and acquire suitable sites for affordable housing development. As part of this program, the City prioritizes the use of City surplus land for affordable housing purposes, as appropriate. In addition, the City pursues surplus land through other governmental or quasi-governmental agencies, such as the Valley Transit Authority and local school districts. Additionally, where appropriate, the City supports legislation that would allow other public agencies to offer excess public lands for housing at below market prices.

PERFORMANCE TO DATE: The following list shows City Council approved affordable housing developments with public land acquisition components. When completed, the combined housing developments will have involved the acquisition of over 29 acres of land, and provided almost 1,000 units of affordable housing.

Chart 8: City-Assisted Housing Developments with Land Acquisition Component

Project Name	Purchase from	Type	Acres	Affordable Units
Sycamore Terrace	Deed in Lieu	Family	1.4	17
12th & Keyes (Bella Castello)	City Surplus	Family	1.6	79
Locust Street Fire Shelter	Redevelopment Agency Surplus	Transitional	0.03	7
Northside Seniors	City Surplus	Seniors	1.7	94
Enseñanza	City Surplus	Teachers	3.7	100
Various Single-family Sites	City Surplus	Family	1.5	21
Evans Lane	VTA & City Surplus	Family	6.2	236
Oak Tree Village	City Surplus	Family	5.1	175
Oak Circle	City Surplus	Seniors	2.1	100
Villa Solara	City Surplus	Family	3.4	100
Delmas Avenue	City Surplus	Family	0.134	1
Ford and Monterey	State of California	TBD	3.05	TBD
Total			29.9	930+

Inclusionary Requirement in Redevelopment Project Areas [Council Adoption September 2001, and Amended in 2001, 2002, 2004, 2006, and 2007]

EXISTING POLICY: State law requires that a minimum of 15 percent of all new or substantially rehabilitated residential units developed within a Redevelopment Project Area must be affordable to lower- and moderate-income households. At least 40 percent of these affordable units (or 6 percent of all units) must be affordable to very low-income households, with the remaining 60 percent (or 9% of all units) affordable to low- to moderate income households. This requirement is commonly referred to as the "inclusionary requirement." According to City and Redevelopment Agency policy, the inclusionary housing requirement should be satisfied by the developers of the market-rate housing developments, within the development in which the market-rate housing is being built. By Council policy, developers must accomplish this requirement without City subsidy.

Current City inclusionary requirements include the following provisions:

- ❖ Developers of for-sale housing may choose to either make at least 20 percent of the units affordable to low- or moderate-income households or provide at least 6 percent of the units affordable to very low-income households and 9 percent of the units affordable to low- and moderate-income households.
- ❖ At least 20 percent of the rental units developed in project areas must be affordable to low- and moderate-income households, 8 percent of which must be affordable to very low-income households.
- ❖ Developers of private housing of 10 or fewer units are not subject to the inclusionary housing requirements. Developers of private housing with 11 to 20 units have the option to include the designated percentage of affordable units within the development, or pay an in-lieu fee based on 20 percent of the development's total units.
- ❖ If the City Council determines that a private developer of projects with more than 20 units would incur unreasonable economic hardship in meeting the inclusionary housing requirements, they may be allowed to pay a fee to the City in-lieu of constructing the affordable units within the private housing development. The current in-lieu fees are set at \$71,400 per rental unit and \$65,000 per for-sale unit.
- ❖ Housing developments in which more than 50 percent of the units are affordable to low- and moderate-income households are exempt from the City's inclusionary requirements.

In June 2002, the City Council/Redevelopment Agency Board adopted the Strong Neighborhood Initiative (SNI) areas as a part of San José's Merged Redevelopment Project Area. With the Council's adoption, the 20 percent inclusionary requirement was extended to one-tenth of San José's total geographic area.

In 2004, the City Council approved a high-rise residential incentive program which would provide a temporary exemption (developments must have been permitted prior to June 30, 2006 to qualify) to new residential high-rise developments planned in the Downtown Core from the City's inclusionary requirements. To offset the loss in new affordable housing units due to this exemption, an equivalent of 100 percent of the first two years of tax increment generated by projects that qualify for exemption under this program would be allocated to the City's affordable housing production efforts.

PERFORMANCE TO DATE: Between FY 2003-04 and 2005-06, 1,898 affordable units were constructed within redevelopment project areas. The income levels of the affordable units are as follows: 47% very low-income, 40% low-income and 13% moderate-income.

As of November 2006, 651 high-rise residential units, in three housing developments, were under construction in the Downtown Core.

RECOMMENDED POLICY CHANGE: Expand the City's current inclusionary policy to include the following: (1) Provide flexibility to developers to pay in-lieu or transfer land to non-profit developers to fulfill inclusionary requirements; (2) adjust current in-lieu fees to reflect the actual costs of providing affordable units; (3) deepen the required affordability levels under the inclusionary housing policy for rental developers; (4) institute a program to entice developers in the Downtown Core Area to build high-rise housing; and (5) consider expansion of the City of San Jose's inclusionary housing policy to include large special planning areas and conversions of planned land use from industrial to residential.

Transit-Oriented Development: Housing Initiative and Housing Opportunity Study [Council Adoption April 1991 and January 2000 respectively]

EXISTING POLICY: In 1991, the City Council approved the Housing Initiative, which encourages the production of high-density housing along San José's transit corridors. The Housing Opportunity Study (HOS) was a three-phase effort, initiated by the City in January 2000, to identify vacant or underutilized sites that are suitable for high-density residential or mixed residential/commercial developments. In order to promote the efficient use of land in close proximity to transit, the study primarily focused on the City's six Transit-Oriented Development Corridors.

PERFORMANCE TO DATE: To date, the Housing Initiative and its successor, the HOS, have resulted in the approval and/or construction of approximately 11,000 residential units along the Guadalupe Transit-Oriented Development Corridor.

In Phase I of the HOS, completed in February 2001, General Plan amendments were made for thirteen sites, designating them as suitable for high-density residential or mixed residential/commercial developments. Seven of these sites are located along the Capitol Avenue/Expressway transit-oriented development corridor, five in Central San José, and one in North San José. The adopted land use changes allow up to 6,000 new housing units.

In Phase II of the HOS, completed in June 2002, General Plan amendments were approved for four additional sites as suitable for high-density residential or mixed residential/commercial developments. The four sites, located along the East Santa Clara Street/Alum Rock Avenue transit-oriented development corridor, will allow up to 1,800 new housing units.

As part of Phase III of the HOS, in December 2004, the General Plan was amended to include four additional sites as suitable for high-density residential or mixed residential/commercial development. In order to preserve existing industrial uses and create new parkland, two of these sites are located near the Curtner light rail station, while the remaining two sites are near/within the Midtown Planned Community. The four sites will allow approximately 575 new housing units.

Additionally, North San José was included as part of Phase III of the HOS. This primarily industrial area is home to many of the City's high-tech companies and is an important employment center for the City. The City's goal for this planning effort is to provide for more development in North San José through a set of policies that benefit both the employers who call North San José home and the residents of San José as a whole. The Policy provides more flexibility and additional industrial development capacity for 20 million square feet of transferable floor area credits that can be allocated to specific properties within the area. The Policy supports the conversion of specific sites from industrial use to high-density residential use, based upon specific criteria compatible with industrial activity.

General Plan Flexibility for Affordable Housing Developments [Council Adoption 1984]

EXISTING POLICY: In order to expand affordable housing opportunities, the City's General Plan policy allows considerable flexibility in providing housing opportunities on sites not planned for residential use and in allowing increased residential densities⁴. For residentially-designated property, a density bonus is allowed for proposed housing projects of five units or more which will contain units affordable to households of very low-, low-, or moderate-income. The percentage of density bonus should not exceed the percentage of proposed units affordable to very low-, low-, or moderate-income households except that a density bonus of 50% would be allowed for a project with at least 10% of its units affordable to households of very low income or 20% affordable for households of low income.

Construction Tax Waivers and Parkland Dedication Ordinance (PDO) Vouchers for Affordable Housing Developments [Construction Taxes - Council Adoption 1992 and reaffirmed in 2006; PDO Vouchers - August 1998 and amended in 2006]

EXISTING POLICY: In 1992, the City Council adopted an ordinance that suspended construction taxes from newly-constructed, very low-income units through June 30, 2006. The exempted taxes included the Building and Structure Construction Tax, the

⁴ San José 2020 General Plan

Construction Portion of the Construction and Conveyance Tax, the Commercial-Residential Mobilehome Park Building Tax (CRMP), and the Residential Construction Tax. In April 2006, the City Council voted to extend the tax suspension through June 30, 2011.

Prior to 1998, housing with occupancy restricted to lower-income households was exempt from paying Park Dedication Ordinance (PDO) and Park Impact Ordinance (PIO) fees. In 1998, in order to ensure that the park and recreation needs of lower-income residents were met, the City suspended the exemption of new units affordable to low- and very-low income households from PDO and PIO fees. However, in-lieu of paying the fees, developers of affordable housing could obtain vouchers from the San José Redevelopment Agency (SJRA), thereby providing funds for parkland development without impacting affordable housing developments. On January 1, 2006, the Low-Income Voucher Program associated with PIO and PDO ended, and the exemption for such units was reinstated.

PERFORMANCE TO DATE: From August 16, 1998 to January 1, 2006, the SJRA paid approximately \$21.5 million in voucher payments to the City for 43 affordable housing developments.

Green Building [Council Adoption November 2001]

EXISTING POLICY: Green Building Principles guide the planning, design, construction, operation, maintenance and demolition of sustainable facilities. On March 6, 2007, the City adopted a revised Green Building Policy. The purpose of the Policy is to provide community leadership by setting a standard of sustainable/green building, and demonstrating the City's commitment to environmental, economic and social stewardship. The Policy requires that the City maximize opportunities to incorporate green building principles and practices into the planning, design, construction, management, renovation, operations and maintenance of all new and existing facilities that are constructed, owned, or managed by the City. In addition, the Policy requires that San José provide leadership and guidance to the private sector by encouraging green building practices in privately developed projects and exploring incentives for private developers to incorporate Green Building Principles into their projects. In this effort, the Housing Department's role is to encourage the inclusion of green building features in affordable housing developments, serve as a resource for training and education on green building principles; and maximize outreach opportunities with developers on the benefits of sustainable building and the certification process.

PERFORMANCE TO DATE: A number of City-assisted affordable housing developments have incorporated green building design features, including Tully Gardens, Betty Anne Gardens, and El Paseo Studios:

Tully Gardens

- Energy Star appliances
- Recycled carpet
- Photo voltaic electrical collections
- Recycled construction debris
- 15% lower than Title 24 regulations
- Low E glass

Betty Anne Gardens

- Hydronic heating system
- Sustainable materials include linoleum
- Low VOC paints
- Non-formaldehyde interior cabinets
- Recycled carpet pad and carpet
- Vinyl windows

Low VOC paint
 Added STC rating - 40
 Cool roof

All fluorescent lighting
 Exterior cementations non-wood siding

El Paseo Studios

Cool roof assembly
 Super insulated Vinyl windows
 Co generation system for heat, water
 Recycled carpet pads and carpet
 Low VOC paint
 All florescent lighting
 Non-formaldehyde interior cabinets and trim

Secondary Residential Unit Pilot Program [Council Adoption November 2005 and extended December 2006]

On November 14, 2005, after significant public outreach, the City Council approved an ordinance creating a temporary pilot program for secondary dwelling units. The pilot program was proposed to determine whether this additional housing option could be implemented without negative impacts on the surrounding neighborhood. The one-year pilot, from January 1, 2006 through December 31, 2006, established parameters for implementation of secondary units in the R-1 Zoning Districts subject to approval of a secondary unit permit, and provided for issuance of a maximum of 100 such permits. Existing illegal secondary units (i.e., those secondary units that were built without permits) that met the pilot parameters were eligible to become legal by obtaining the necessary permits, which would not count towards the 100-unit limit of the pilot.

PERFORMANCE TO DATE: On December 5, 2006, staff recommended and the City Council adopted, an ordinance extending the pilot program for secondary units until June 30, 2007, without changing the maximum of 100 permits allowed under the program. As of April 2007, 57 applications for secondary units had been received, 36 of which had been approved and 10 new units constructed. Staff anticipates that since the pilot program has been extended, there will be sufficient time to collect the data needed to evaluate the pilot program's parameters and the impact of new secondary units on residential neighborhoods. Staff will make a recommendation to the City Council regarding the future of the Pilot Program in 2007. Staff continues to develop recommendations to alleviate concerns about illegal secondary units.

Summary of Performance

The rapid growth of San José has brought the city's population to nearly one million, making it the third largest city in California and the tenth largest city in the nation. Affordable housing has become increasingly important as median home prices and rents continue to increase. As a result, San José has become one of the least affordable places to live in the nation.

The City of San José has responded aggressively to meet the need for affordable housing. Since 1988, approximately 16,500 units of affordable housing have been

produced in the City of San José, with over 6,600 units completed in the past five years. Using local redevelopment funds and a combination of other government funding, the City has provided more than \$580 million in loans and grants to affordable housing developers and leveraged more than \$2.3 billion in private and public capital. Over the last five years, the City has been successful in leveraging approximately \$2.60 for every one dollar of City funds spent on housing.

In addition to providing affordable rental housing opportunities, the City has provided over 12,000 units with rehabilitation loans and grants and more than 1,500 new homebuyers with second mortgage assistance, including nearly 600 public school teachers.



FUNDING SOURCES

Developing affordable housing, particularly for very low- and extremely low-income households, requires both deep financial subsidies and creativity. Layers of funding from various sources are often needed to make an affordable housing project financially feasible. The Housing Department works with developers to actively seek and obtain various State, federal, and private funding resources to achieve the City's affordable housing production goals.

The Table B in Appendix B indicates the anticipated funding amounts expected from all sources for the 2007-08 Fiscal Year. The City anticipates a total of nearly \$600 million in resources available from local, State, federal, and private sources over the next year for development, preservation, or rehabilitation of affordable housing projects. More than \$82 million of this amount comes from local funding sources.

Local Programs

Redevelopment Housing Set-Aside Funds

The City's main source of funding for affordable housing development is Redevelopment Housing Set-Aside Funds for lower- and moderate-income housing development. Pursuant to California law, redevelopment agencies obtain funding through a method called "tax increment financing." Once a City Council approves a Redevelopment Plan for a proposed project area, the area has a certain total property tax value. If the property tax value increases, the funds derived from the increase go to the Redevelopment Agency. The Redevelopment Agency receives the "increment" in increased tax revenue as property values within redevelopment areas increase. The base taxes collected in the project areas continue to go to the city, school district, and other government entities that received them before the project area designation.

Since 1976, California law has required that not less than twenty percent (20%) of the gross redevelopment tax increment must be set aside for "increasing, improving, and preserving the community's supply of low- and moderate-income housing." These "Set-Aside" Funds are placed by each agency in a separate Low and Moderate Income Housing Fund to be used pursuant to the requirements of State Redevelopment Law. Through a cooperation agreement with the Redevelopment Agency, the San José Housing Department is responsible for the administration of the Low and Moderate Income Housing Fund. Each year, the Redevelopment Agency transfers the required 20% to the Housing Department for affordable housing purposes. Often, the Redevelopment Agency transfers additional funding, in the form of bond proceeds, to the Housing Department for special projects and programs.

California law also requires tax increment funds to be used to "further the interests of the redevelopment plan," which generally means these funds must be spent within the boundaries of the redevelopment area itself unless the City Council makes special findings that the funds are clearly related to the interests of the project area. Because affordable housing is deemed a benefit to project areas, the City of San Jose uses its 20% funding throughout the City to finance affordable housing development. The City Council makes a benefit finding at the time a project outside of a Project Area is approved.

The State Department of Housing and Community Development monitors the use of the Set-aside Funds closely and has indicated that the money must be limited to these categories and may not be spent on other uses such as providing funding to construct a homeless shelter.

In FY 2007-08, the Housing Department is projected to receive \$34.7 million in Set-Aside Funds. The amount of tax increment is projected to increase annually by about 7% over the next five years. In order to leverage this revenue stream, the city will issue Tax Allocation Bonds (TABs) in the next five years, pledging future 20% tax increment revenue to cover borrowing costs. For more information on the City's plan for borrowing, see the section entitled "The Next Five Years," on page XX.

Other Requirements of Redevelopment Law

In spending its Low and Moderate Income Housing Funds, the City must follow State requirements governing the expenditure of funds as well as local policies established by the City Council. The primary requirements that shape the City's affordable housing program are:

- (1) Affordability Restrictions—State law requires that rental developments be affordable for a minimum of 55 years and that owner-occupied housing be affordable for a minimum of 45 years.
- (2) Senior Housing-- Funds expended for senior housing must not exceed the percentage that the community's lower-income population over age 65 bears to the community's total lower-income population as reported in the most recent Census.
- (3) Income Distribution-- Funds must be spent on the appropriate income levels based on the needs of the community, as determined by the Association of Bay Area Governments.
- (4) Gap Funding-- Funds must be used as "gap-fillers" only to the extent conventional financing is not available.

San Jose Housing Trust Fund

In June 2003, the City established a Housing Trust Fund (HTF) to be used as a vehicle to fund the City's housing and homeless programs. The purpose of the HTF (originally called the Housing and Homeless Fund) is to ensure ongoing funding for affordable housing and homeless efforts by creating a vehicle that is eligible to compete for and receive funding from outside revenue sources otherwise not available to the City. Funds deposited into the HTF include: bond administration fees, Tax Credit Application Review fees, In-Lieu Housing fees, and other miscellaneous revenues.

HTF funds do not carry the same restrictions as Low and Moderate Income Housing funds and other funds from the State and federal government, so funds can be used for activities such as assisting homeless shelters and providing funding for services. Examples of eligible activities include: support to emergency shelters for unforeseen emergency capital expenditures, jobs programs for the homeless, homeless prevention programs, such as default and foreclosure assistance, one-time rent to prevent eviction, and construction funds for the development of ELI housing for special needs populations. In addition, HTF funds are used for direct assistance to the homeless. The City provides funding to the Housing Services Partnership, a collaboration between the Emergency Housing Consortium, InnVision the Way Home, and Sacred Heart Community Services.

Housing Trust of Santa Clara County

In 1999, the Housing Trust of Santa Clara County (HTSCC), a public/private initiative, was established by concerned agencies-- including the Community Foundation Silicon Valley, Silicon Valley Leadership Group, and the County Collaborative on Housing and Homelessness—in an effort to address the severe housing problems facing many San Jose and Santa Clara County residents. The goal of the HTSCC was to raise \$20 million for affordable housing. The City of San Jose helped start the contributions to the fund rolling, with a \$1 million commitment that was matched by other public and private contributions, in amounts that eventually exceeded the original goal.

As of 2007, the Trust has raised over \$32,000,000. Donors include some of Silicon Valley's largest employers, many cities, the County of Santa Clara, local foundations and industry associations. To date, the San Jose Redevelopment Agency has committed \$1,500,000 to this effort. More than 6,000 families and individuals have been assisted since the creation of the Fund. Specifically, the Thrust has helped 1,866 first-time homebuyers, 3,089 individuals find shelter, and contributed to the construction of over 1,250 affordable rental apartments.

State Programs

Department of Housing and Community Development

The State Department of Housing and Community Development (HCD) administers several important programs that leverage the City's affordable housing resources. In 2002, California voters approved Proposition 46, a \$2 billion General Obligation Bond that funded a variety of State housing and homeless programs. (See the chart below for detail on the amount of funding the City and its partners have received to date from Proposition 46.) In 2006, voters approved another measure—Proposition 1C—which provided an additional \$2.8 billion for affordable housing efforts. Programs include:

Multi-family Housing Program (MHP)—The MHP provides deferred payment loans to affordable housing developers for the new construction, rehabilitation and preservation of permanent and transitional rental housing for lower income households.

Building Equity and Growth in Neighborhoods Program (BEGIN)—The BEGIN program provides grants to cities, counties, or cities and counties to make deferred-payment second mortgage loans to qualified buyers of new homes, including manufactured homes on permanent foundations, in projects with affordability enhanced by local regulatory incentives or barrier reductions.

CalHOME Program—The CalHOME program provides grants to local public agencies and nonprofit developers to make deferred payment loans to individual households for first-time homebuyer downpayment assistance, home rehabilitation, acquisition/rehabilitation, and other homebuyer assistance.

Workforce Housing Reward Program—The Workforce Housing Program provides financial incentives to cities and counties that issue building permits for new housing affordable to very low or low-income households. The grant amounts are based on the number of bedrooms in units restricted for very low and low-income households for housing units with building permits during the 12-month reporting period. The Workforce Housing Program will not be available after the 2007 funding cycle.

Exterior Accessibility Grants for Renters (EAGR)—The EAGR program provides grants to local government or nonprofit organizations to make exterior modifications to rental housing occupied by lower income rental tenants with disabilities to make it accessible. The EAGR program will not be available after the 2007 funding cycle.

Regional Planning, Housing and Infill Incentive Account—This new program was created with the passage of Proposition 1C and is intended to fund infill incentive grants for capital outlay related to infill housing development. Program parameters are currently being discussed by the State Legislature. At \$850 million, this is the single largest pot of money available as a result of Proposition 1C's passage.

Parks Funds— Two new pots of money were made available for regional and local parks under Proposition 1C. One is \$200 million under the "Infill Development" funds

and the second is another, stand-alone allocation of \$200 million for “grant funding for housing-related parks in urban, suburban, and rural areas.” One of the main goals of the parks component of Proposition 1C is to make funds available for the effective development of parks in conjunction with affordable housing located on infill sites.

Transit-Oriented Development—This \$300 million program is designed to provide assistance for the development of transit oriented developments (TODs), and to facilitate the development of higher density housing uses within close proximity to transit stations. The program has two funding pots: 1) grants to localities and transit agencies for infrastructure necessary for the development or connection to new housing, and 2) loans for the development and construction of the housing itself.

Innovation Fund— Proposition 1C created a \$100 million innovation fund to provide competitive grants or loans for affordable housing and for pilot programs that demonstrate innovative, cost-saving approaches to creating or preserving affordable housing.

California Housing Finance Agency (CALHFA)

CalHFA provides below-market rate financing to create safe, decent, and affordable rental housing and to assist first-time homebuyers in achieving homeownership. Programs include:

Multi-Family Housing Programs – These programs provide permanent financing for the acquisition, rehabilitation, preservation, and new construction of rental housing that includes affordable units for low and moderate-income families and individuals.

Homeownership Programs- The High Cost Area Home Purchase Assistance Pilot Program (HiCAP) assists first-time homebuyers in high housing cost areas, including Santa Clara County. The HiCAP provides a deferred-payment second loan of \$7,500 for down payment assistance and is only available when combined with a CalHFA first mortgage loan program.

Mortgage Insurance Programs – The City takes advantage of two special mortgage insurance programs offered to high cost areas: the California Housing Loan Insurance Fund (CaHLIF) 97 & 3 is a program provides a standard Fannie Mae/Freddie Mac 97% Community Homebuyer Loan in combination with a 3% CaHLIF “sleeping second”, with a resulting combined loan-to-value ratio of 100%. Another program, through CaHLIF/CalPERS, uses a Fannie Mae 97% loan and a 3% CaHLIF “sleeping second” loan.

Proposition 46: Funding Received			
Funding Source	Amount Awarded	Funds Leveraged	Total Units
BEGIN	\$4,740,000	\$57,508,500	127
CalHFA	\$15,819,991.70*		1352*
CalHome	\$2,750,000	Unavailable	33
Code Enforcement Grant Program	\$295,907	N/A	N/A
Exterior Acessibility Grants for Renters	\$500,000	N/A	11
Emergency Housing and Assistance Program	\$3,037,500	\$17,815,034	210
Local Housing Trust Fund	\$1,500,000	N/A	N/A
Multifamily Housing Program (MHP)	\$30,362,722	\$70,252,152	263
Workforce Housing Program	\$2,528,143	N/A	1157
Self-Help Program	\$145,000	\$3,324,000	12
Total:	\$61,679,263.70	\$148,899,686	

* This figure is an estimate based on the average percentage of funds the City receives through various CalHFA programs. CalHFA does not record funds distributed to cities, only by county.

California Debt Limit Allocation Committee

The California Debt Limit Allocation Committee (CDLAC) administers the tax-exempt private activity bond program. Agencies and organizations authorized to issue tax-exempt private activity bonds or mortgage credit certificates must receive an allocation from CDLAC. The City receives regular allocations from CDLAC and issues bonds on behalf of affordable housing developments constructed in San Jose.

Tax-Exempt Bonds: CDLAC administers a Multifamily Rental Housing Bond Program that allows State and local agencies to issue tax-exempt housing revenue bonds for multifamily rental housing development, acquisition, and rehabilitation. A minimum of 20% of the units must either be affordable to very low-income households (at or below 50% adjusted median income (AMI) or 40% for low-income households (at or below 60% AMI).

Mortgage Credit Certificates: CDLAC is also responsible for the allocation of Mortgage Credit Certificates (MCC). Through base MCCs, eligible homebuyers increase their ability to qualify for a mortgage loan. MCC recipients may take 15% of the annual mortgage interest payments as a dollar-for-dollar tax credit, thereby reducing their federal income tax bill. The Extra Credit Teacher Home Purchase Program allows an eligible homebuyer using the MCC to take 20% (instead of the base 15%) of the annual

mortgage interest payments as tax credit. The County of Santa Clara administers the MCC Program on behalf of San Jose residents.

Low-Income Housing Tax Credits

With the extremely high cost of developing housing in California, the state Legislature authorized a State low-income housing tax credit program in 1997 to supplement the federal tax credit program. The State credit is only available to a project which has previously received, or is concurrently receiving, an allocation of federal credits. The annual state credit ceiling for 2007 is approximately \$80 million. Investors claim the State credit over a four year period, while the allocation period for federal tax credits is ten years. The full four-year State credit allocated to a project is deducted from the State ceiling, while only the annual federal credit allocated to a project is deducted from the federal ceiling¹. In California, the demand for housing tax credits has recently exceeded the supply by approximately two to one (2:1).

Federal Programs

U.S. Department of Housing and Urban Development Entitlement Grants

The Community Planning and Development Division (CPD) of the U.S. Department of Housing and Urban Development (HUD) provides a range of housing and community development grants to local jurisdictions for a number of different activities. For larger localities, the grants are provided as an "entitlement," whereby jurisdictions receive a fixed amount annually based on a formula that includes the local population and the proportion of lower-income households.

Community Development Block Grant (CDBG) – The primary objective of the CDBG program is to develop viable urban communities by providing decent housing, a suitable living environment, and economic opportunities, principally for persons of lower-incomes. In recent years, the City has received an allocation of approximately \$10 million under this Program.

HOME Investment Partnership (HOME) – The HOME program provides federal funding for the development and rehabilitation of rental and ownership housing for lower-income households. The program gives the City flexibility to fund a wide range of affordable housing activities through partnership with the private industry and nonprofit organizations. The City has typically received about \$4.3 million in HOME funds annually.

Emergency Shelter Grant (ESG) – The ESG program provides funds to nonprofit service providers that offer services to person who are homeless or at risk of becoming homeless. The City has shifted its funding priorities to services that will assist in its efforts to end chronic homelessness, including the provision of housing assistance and essential

services such as job training and substance abuse counseling. The City receives an annual allocation of approximately \$450,000 in ESG funds.

Housing Opportunities for Persons with AIDS (HOPWA) – The HOPWA program provides grant funds to local jurisdictions to provide a wide range of services for persons who are living with HIV/AIDS and who are homeless or at risk of becoming homeless. Eligible uses of funds include the provision of supportive services, tenant-based and project-based rental assistance, and assistance in obtaining mainstream benefits. HOPWA funds are granted to the largest jurisdiction in each county, giving it the responsibility of providing housing assistance to people living with HIV/AIDS throughout the county. The City of San José, as the designated recipient of the HOPWA funds for the counties of Santa Clara and San Benito, receives approximately \$1.3 million in HOPWA funds annually.

Low-Income Housing Tax Credit

The federal Low-Income Housing Tax Credit Program (LIHTC) was created by the Tax Reform Act of 1986. The Tax Reform Act permits investors of housing for lower-income households to use tax credits to reduce federal income taxes.

Investors must maintain affordability of the units for no less than 15 years. In return, investors receive a ten-year stream of federal tax credits. The value of these credits is usually converted into equity in the development, resulting in reduced debt and increased affordability.

Tax credits are allocated to developers and must be approved by the states. In California, the Tax Credit Allocation Committee (TCAC) is responsible for allocating the both the federal and state tax credits. Currently, each state receives an annual allocation of \$1.75 per capita in federal tax credits, an amount that will increase annually indexed to inflation.

¹ California Tax Allocation Committee, www.treasurer.ca.gov/CTCAC



THE NEXT FIVE YEARS

The City's affordable housing program contributes greatly to the overall housing production in San Jose. Over the last six years, more than 50% of all new rental housing developments have been affordable to low-income households as a result of City subsidies. Due to the softening of the rental housing market beginning in 2002, production of market-rate rental housing has significantly slowed, leaving subsidized rental housing as the major source of development at this time, as is evidenced in Table 6.1. Affordable housing projects were the only developments to pull permits in both FYs 2005-06 and 2006-07.

The success of the City's affordable housing program is dependent on two important factors: the ability to borrow funds to provide gap loans to developers, and the availability of outside resources to leverage City funding.

The City's Financial Resources

The principal source of gap financing for City-assisted affordable housing developments is the Redevelopment Tax Increment 20% housing setaside (Low and Moderate Income Housing Fund). Consequently, the City's revenue stream largely depends on strong economic development activity in redevelopment project areas.

Over the years, the City has received considerable funding for its affordable housing programs from the Low and Moderate Income Housing Fund. However, due to the downturn in the local economy in the early part of the decade, redevelopment funding dropped significantly over a two year period beginning in FY 03-04. Funding is now on the increase, with an anticipated 7% increase in FY 07-08. Nevertheless, it is still expected to be several years before tax increment returns to its pre-downturn levels.

The City borrows against this tax increment in order to finance affordable housing projects and programs. Borrowing allows the City to increase the amount of funding available to finance housing now—at a rate as high as \$10 for each dollar of increment. So, if there is \$30 million in tax increment available, that amount can be increased to \$300 million by borrowing and pledging future increment in repayments.

In addition to the Low and Moderate Income Housing Funds, the City uses a variety of local, State and federal resources to finance its affordable housing program. These funds are described in detail in the Chapter entitled FUNDING SOURCES.

Outside Investment in Affordable Housing

City funding alone is not enough, however. Outside funding resources must be leveraged in order to achieve the production goals for the next five years. Typically, the City's gap loans represent between 25% to 33% of the overall cost of development; the remaining amount must be accessed from other sources. Major sources of outside funding include: private bank financing, 9% Low-Income Housing Tax Credits (LIHTC), the State's Multi-family Housing Program (MHP), and a combination of tax-exempt, private-activity bonds and 4% tax credits.

The 9% LIHTC and MHP Programs enable developments to achieve rents that are affordable to extremely low-income households. However, due to extreme competition, the City can only expect to leverage these funds for a few projects each year. As a result, in order to meet the City's production goals mentioned later in this chapter, higher amounts of City subsidy will be needed. This will impact the overall production that can be achieved with the funding available.

Five-Year Funding Projections

The development environment in San José remains challenging. Although market rate rents are recovering from a recent decline, land prices and construction and labor costs have increased drastically over the same time frame. This has increased the average City gap loan required to finance a rental unit to over \$90,000. Depending on the number of ELI units included in a development, and depending on the leveraging that can be achieved, this per-unit subsidy can be much higher.

To fund the City's housing production program, the following resources will be required.

Local, State, and Federal Funds

Over \$200 million of Housing Tax Increment is projected to be available over the next five years. This is in addition to \$140 million expected from bond sale proceeds and approximately \$359 million from State, Federal, and other sources. The federal programs line, shown on the following Table 6.1, also includes Community Development Block Grant (CDBG) program funds. Please see Appendix A for more information.

The Department has annual credit capacity of up to \$50 million dollars from a line of credit. This credit capacity is used as needed to cover costs. Once the line is depleted, the Department issues bonds to replenish the funds. Over the five-years, it is anticipated that the Department will draw down \$100 million in funding from this line of credit. These funds will be repaid with borrowing in an estimated amount of \$140 million.

**Table 6.1: Projected Sources of Local, State, and Federal Funds for Affordable Housing
FY 2007-08 – 2011-12**

Sources of Funds	2007-08	2008-09	2009-10	2010-11	2011-12	Five-Year Totals
Beginning Balance (Unrestricted Funds)	\$18,596,369	\$9,901,936	\$13,570,364	\$21,389,628	\$15,764,203	\$18,596,369
Housing Tax Increment*	\$34,763,973	\$37,000,000	\$39,600,000	\$42,800,000	\$46,200,000	\$200,363,973
Supplemental Redevelopment Funding	\$375,025	\$0	\$0	\$0	\$0	\$375,025
Interest/Repayments/Miscellaneous	\$13,148,432	\$13,542,885	\$13,949,172	\$14,367,647	\$14,798,676	\$69,806,811
Teacher Homebuyer Repayments	\$3,000,000	\$3,000,000	\$3,000,000	\$3,000,000	\$3,000,000	\$15,000,000
Fee Revenue	\$11,405,500	\$11,755,500	\$12,108,165	\$12,471,410	\$12,845,552	\$60,586,127
Federal Programs	\$12,045,551	\$11,545,551	\$11,545,551	\$11,545,551	\$11,545,551	\$58,227,755
State Programs	\$5,385,309	\$6,000,000	\$6,000,000	\$2,000,000	\$2,000,000	\$21,385,309
Line of Credit Draws	\$20,000,000	\$30,000,000	\$15,000,000	\$30,000,000	\$20,000,000	\$115,000,000
Net Bond Sale Proceeds	\$0	\$0	\$70,000,000	\$0	\$70,000,000	\$140,000,000
Total Sources of Funds	\$118,720,159	\$122,745,872	\$184,773,251	\$137,574,235	\$196,153,982	\$699,341,369
\$50 Million Line of Credit Capacity	\$30,000,000	\$0	\$35,000,000	\$5,000,000	\$30,000,000	

Uses of Available Funds

The available funds will be used to finance a variety of City affordable housing programs. Table 6.2 outlines the uses of available funds. The bulk of the funds in each of the coming five years will be utilized for the new construction and acquisition/rehabilitation of rental housing affordable to ELI, VLI, and LI households through the Project Development Program. In addition, other programs will address the critical needs for rehabilitation, first-time homebuyers, and the homeless.

The Housing Department will also expend funds for the ongoing monitoring and loan management of its portfolio to ensure that units remain affordable and that housing developments are well-maintained and continue to be financially viable.

**Table 6.2: Projected Uses of Funds
FY 2007-08 – 2011-12**

	2007-08	2008-09	2009-10	2010-11	2011-12	Five-Year Totals
Loans and Grants						
<i>Project Development</i>	\$55,600,000	\$58,300,000	\$61,090,000	\$63,794,500	\$66,634,000	\$305,778,500
<i>Housing Rehabilitation</i>	\$6,600,000	\$5,909,125	\$6,587,365	\$7,000,102	\$7,454,112	\$33,853,728
<i>Homebuyer Programs</i>	\$6,889,268	\$7,095,946	\$7,113,878	\$7,327,295	\$7,547,114	\$35,973,501
<i>Homeless Programs</i>	\$3,828,021	\$4,210,823	\$4,631,905	\$5,095,096	\$5,604,606	\$23,370,451
<i>Other Programs</i>	\$2,845,309	\$0	\$0	\$0	\$0	\$2,845,309
Loan Management	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$2,500,000
Administration	\$12,079,783	\$12,683,772	\$13,317,961	\$13,983,859	\$14,683,052	\$66,748,426
Debt Service / Borrowing Costs	\$20,475,842	\$20,475,842	\$20,475,842	\$24,475,842	\$24,475,842	\$110,379,210
Carryover to Following Year	\$9,901,936	\$13,570,364	\$21,389,628	\$19,401,189	\$22,892,244	\$22,892,244
Total Uses of Funds	\$118,720,159	\$122,745,872	\$184,110,226	\$141,577,882	\$199,790,969	\$604,341,369

Five-Year Housing Production Goals

According to recent reports published by Bay Area Local Initiatives Support Corporation (LISC) and the Association of Bay Area Governments (ABAG), over the next twenty years the need for affordable housing throughout Santa Clara County will significantly increase. As noted throughout this FYHIP, a shortfall of 2,000 units each year is expected throughout Santa Clara County. While the City recognizes the tremendous need for affordable housing, the City's production goals must be based on maximized bonding capacity secured by the 20% tax increment and developers' combined abilities to leverage other public and private funds. Although the goals continue to be aggressive—they will not be enough to completely address the need for affordable housing in San Jose.

The Housing Department remains committed to its various housing programs in response to current and future housing needs. As illustrated in Table 6.3, over the next five years the Housing Department will finance 3,104 new affordable housing units. This number does not include any inclusionary units that may be built in Redevelopment Project Areas in conformance with the City's Inclusionary Housing Policy.

Table 6.3: Yearly Five-Year Production Goals FY 2007-08- FY 2011-12

Project Development Program	Average Subsidy	2007-08	2008-09	2009-10	2010-11	2011-12	Five-Year Totals
Rental Housing Units Annual New Construction Subsidy Rates		\$108,000	\$114,000	\$120,200	\$126,210	\$132,520	
New Construction	\$100,000	450	450	450	450	450	2,250
Acquisition/Rehabilitation	\$70,000	100	100	100	100	100	500
Subtotal		550	550	550	550	550	2,750
Inclusionary Policy Units							
Rental Units	\$0	50	65	85	110	143	452
For-Sale Units	\$0	100	130	169	220	286	904
Subtotal		150	195	254	330	428	1,356
	\$65,000						
Homeownership Units		106	109	109	113	116	553
Total Production Unit Goals		806	854	913	992	1,095	4,460
Total Production Budget		\$62,489,268	\$65,755,946	\$68,203,878	\$71,121,795	\$74,181,114	

In addition to newly constructed housing, the rehabilitation of existing units also constitutes a major focus of the City's housing programs. The rehabilitation program provides loans and grants to ensure that homes occupied by lower-income households are safe. Chart 6.4 outlines the production goals of the Housing Rehabilitation Program.

Table 6.4: Housing Rehabilitation Program Production Goals

Housing Rehabilitation Program	Average Subsidy	2007-08	2008-09	2009-10	2010-11	2011-12	Five-Year Totals
Single Family Grants/Loans	\$21,853	170	172	189	208	229	967
Mobilehome Grants/Loans	\$12,000	130	130	130	130	130	650
Paint Grants	\$5,000	180	180	180	180	180	900
Minor Repair Program	\$1,077	325	0	0	0	0	325
Project Alliance	\$12,500	30	0	0	0	0	30
Total Rehabilitation Program Unit Goals		835	482	499	518	539	2,872
Total Rehabilitation Program Budget		\$6,600,000	\$6,212,150	\$6,587,365	\$7,000,102	\$7,454,112	\$33,853,728

Over the next five years, the total production and rehabilitation housing programs will finance 4,920 affordable housing units. The 4,920 units include: 2,250 new construction, 500 acquisition/ rehabilitation, 553 homeownership, 967 single family grants/ loans, and 650 mobilehome grants/loans. The total number of affordable units does not include the 900 paint grants, 325 minor repair program grants, 30 Project Alliance units, or an anticipated 1,356 inclusionary units. In total, the City expects to assist and finance over 7,000 affordable units over the next five years.



IMPLEMENTING ACTIONS

In addition to the ongoing policy and production efforts of the City, the following actions are needed to implement the City's vision for affordable housing over the next five years.

Production Policies

1. **Five-Year Zoning for Housing:** The City is embarking on a major update of its General Plan. As this significant work effort takes place over the next two years, the City will explore ways to expedite housing development. Currently, the City Council designates land for residential use under the General Plan for purposes of the City's Housing Element. The current practice is that these sites are then rezoned by individual developers.

Action: Budget adequate resources to zone land for housing to prepare it for development, starting in the North San José Redevelopment Area where up to 8,000 new units of housing are anticipated.

Action: As part of the General Plan Update, evaluate all sites planned for housing to determine appropriate densities.

Action: Provide developers with information about sites where the City would like to see housing built.

Action: Consider allowing development "by-right," whereby development can occur if it is consistent with the zoning.

Action: In conjunction with these changes, strengthen outreach to neighborhoods.

2. **Homeownership:** The City has a number of programs that seek to increase homeownership opportunities, including the City's successful Teacher Homebuyer Program, which provides second mortgage assistance to K-12 classroom teachers in San José schools.

Action: Review the City's comprehensive strategy for homeownership to determine whether the first-time homebuyer programs should be modified to increase the number of participants.

Action: Consider expansion of the THP to make other educational professionals eligible, including non-classroom teachers, support staff, bus drivers, and other public education employees who add to the educational success of San José students.

Action: Evaluate the potential for a pilot program that serves community college faculty, modeled after the San José State Faculty Homebuyer Program.

Action: Create a policy under the homebuyer program that discourages "flipping" or quick turnover of the units.

3. **Acquisition/Rehabilitation Policies:** The City encourages the acquisition and rehabilitation of affordable rental housing, not only to improve dilapidated housing but also because it results in the preservation of affordable units or converts market-rate units to affordable ones. In considering whether to finance such projects the City requires that certain criteria be met.

Action: Explore the merits of expanding the situations when funding acquisition/rehabilitation efforts is desirable, particularly as the City looks to increase the housing stock affordable to ELI and VLI households.

4. **Predatory Lending:** In 2003, the City established the "Don't Borrow Trouble Campaign." This education and outreach campaign has brought together several disparate organizations with differing constituencies, such as Project Sentinel, the California Association of Mortgage Brokers, and the Santa Clara County Association of Realtors. In the current market, where many subprime borrowers are facing foreclosure, education campaigns are critical to ensure that borrowers obtain good loans and stay in their housing.

Action: Work with Neighborhood Housing Services Silicon Valley and other partners to increase outreach efforts to borrowers with subprime loans and direct them to services that help them remain housed.

Action: Advocate for the protection of borrowers from adverse or inappropriate sub-prime lending practices through State and federal legislation.

Action: Monitor, investigate, and make recommendations on State and federal legislation related to predatory lending.

5. **Permanent Funding Sources:** The need for affordable housing exceeds the current resources available. While the State of California has passed two statewide housing bonds over the last five years, which has been an important source of funding for affordable housing, this is an uncertain and tenuous source of monies that can't be guaranteed in the future. On the other hand, over the last four years, the federal government has reduced San José's funding by 15% for housing and community development related projects. As a result, the City needs to identify additional funding sources to fill the resource gap. The need for affordable housing, and the funding gap, is outlined in the report "Housing Silicon Valley: A 20 Year Plan to End the Affordable Housing Crisis."

Action: Protect the Low and Moderate Income Housing Fund ("20% Fund").

Action: Support efforts developed by the Blue Ribbon Commission on Ending Chronic Homelessness in Ten Years and Solving the Affordable Housing Crisis in Twenty Years to increase funding available at the local level.

Action: At the federal level, protect existing funding sources for housing and community development efforts. Advocate for full funding of the HOME Investment Partnership, HOPWA, Emergency Shelter Grant Program, and other entitlement programs. Oppose attempts to reduce and dilute the Community Development Grant Program. Support increased funding for Section 202 and Section 811 Programs, which have seen drastic reductions in the past ten years.

Action: Support new federal housing efforts, particularly those that seek to increase the federal role in provision of construction financing for units affordable to lower income households. Continue to push for the passage of the National Affordable Housing Program.

Action: Support efforts at the State level to identify ongoing funding sources for affordable housing. Although recent bond measures have provided funding for affordable housing efforts, this funding is “one-time” in nature, and an ongoing funding source still needs to be identified.

Action: Investigate potential local funding sources that can supplement the City’s 20% Tax Increment and that can provide continued funding when redevelopment funding is no longer available.

Action: In October 2005, the City of San Jose and City/County of San Francisco received notice from the U.S. Department of Housing and Urban Development (HUD) that it was no longer considered a “Difficult Development Area” even though both cities are two of the highest cost areas in the nation. The loss of DDA designation negatively impacts future development of affordable housing in the Bay Area, by restricting the amount of tax credit equity available to affordable projects in our cities. The City of San José encourages HUD to either develop an alternative plan to calculate DDA, which is based on average land, construction, and utility costs relative to the incomes of low income families or seek a grandfathering of San Jose and San Francisco into the difficult development area formula.

6. **Community Land Trust for Coyote Valley:** The Coyote Valley Specific Plan calls for the creation of 25,000 new housing units. The Plan includes an “Inclusionary Zoning” requirement that 20% of all units be deed-restricted, below-market rate units. The inclusionary plan for the Coyote Valley will involve a variety of different concepts, including land dedication, in-lieu fees, credits and transfers, and integrated units.

Action: Investigate the options available for administering the inclusionary plan, particularly with respect to the dedication of land and credits and transfers. Among other actions, determine how land will be transferred and to what entity, determine how credits and transfers will be accounted for, and determine the staffing needed to oversee this program.

7. **Preserving Existing Affordable Housing:** It is important to build new housing units to meet the need, but equally important to save the affordable housing stock that the City already has.

Action: Increase awareness and availability of HUD programs such as Mark Up to Market and enhanced Section 8 vouchers.

Action: Advocate for continued or increased funding of the Section 8 voucher Program.

Action: Support legislation that promotes the preservation of existing affordable housing. Currently, Congress renews funding for the Section 8 program on a year-to-year basis. Support efforts to provide longer term renewals to encourage owners to maintain their units as affordable.

Action: Update the City's list of units at risk of conversion from affordable to market rate to include units that have not been counted in the past, including State-funded units, and those that were assisted in the early years of the Redevelopment Agency/ Housing Department affordable housing programs.

8. **Secondary Residential Units:** In 2006, the City created a pilot program to allow the developers of new secondary units, and to legalize existing units, if they complied with certain criteria. Since the beginning of the pilot program, 10 secondary units have been built with an additional 47 still in the application process. It is estimated that there are several thousand illegal units in San Jose, many of which raise health and safety concerns. Nevertheless, it is recognized that secondary units provide an affordable housing option for many of San José's lower-income households.

Action: Review the impacts and outcomes of the City's 1-½ year pilot program. Consider changes to the program parameters and, if appropriate, recommend a permanent program to the Mayor and City Council.

Action: Seek alternative options to respond to illegal secondary units.

9. **Dispersion Policy:** As stated in the Cities Policy Section of this Plan, the City's Dispersion Policy is a positive statement that encourages affordable housing development throughout the City.

Action: Research the issue of social integration to determine whether there is a benefit to mixed-income projects compared with stand alone affordable housing developments dispersed among market-rate projects.

10. **Single-Family Rehabilitation Program:** The City's rehabilitation programs ensure that residents live in decent, safe, and sanitary housing. The City defines rehabilitation on a single-family home as "substantial" if it exceeds 25% of the city-wide median sales price of a home. Currently there is no limit to the value

of the home that can apply for the program, as long as the owners are low-income.

Action: In response to the escalating housing prices, and resulting increases in equity, consider the adoption of a policy to place a cap on the maximum home price assisted by the City's rehabilitation programs in order to use the Department's limited resources more effectively.

11. **Fair Housing:** The Fair Housing Act of 1968 was adopted to safeguard against illegal housing discrimination. The Law protects a person's right to own, sell, purchase, or rent housing of his or her choice without fear of unlawful discrimination. In 2003, the City adopted its Analysis of Impediments to Fair Housing and hired a Fair Housing Coordinator to monitor, re-evaluate, and update the Analysis on a continuing basis.

Action: Continue to lead and participate in the education and outreach campaigns including the City's Fair Housing Workshops. Continue to develop working relationships with the City/County fair housing service providers.

12. **Parkland Dedication Ordinance and Impact Fees:** City- financed affordable housing development for low and very low-income households is exempt from paying fees for the parkland dedication ordinance.

Action: Work to ensure that the City accesses funding for parks associated with affordable housing developments under Proposition 1C. Explore other funding sources to provide recreational opportunities for affordable housing residents.

13. **Mobilehome Parks:** In 1985, the City Council adopted a rent control ordinance specifically for mobilehomes. The ordinance allows park owners to increase rent for mobilehomes on an annual basis to the Maximum Annual Percentage Increase, which is set based on the Consumer Price Index and is limited to a minimum 3% and a maximum of 7% per year.

Action: Continue to ensure that rent control for the City's Mobilehome parks continues and that means of advertising or changing ownership of these properties does not erode the rights of residents.

Action: Implement a pilot mobilehome park infrastructure program to address concerns about failing systems in older parks.

Action: Investigate the extent of mobilehome park infrastructure problems, the ways other cities have responded, and options to consider for funding repairs

Serving Those in Need

1. **Tenant Protections:** San José has a large rental community made up of working families who struggle to pay their bills, take care of their children, and plan for their future. Due to the tight rental market experienced in the past few years, issues related to tenant protections and evictions have been debated vigorously by the community.

Action: Ensure that the City's rent control ordinance remains in effect and the State legislation does not further erode these efforts.

Action: Continue efforts to promote renters' insurance to inform the City's renters of the importance of having renters' insurance in the event of a disaster.

Action: Continue to provide education and outreach services to tenants and landlords covered by the Rent Control ordinance.

Action: Proactively monitor the conversion of large rental projects to for-sale ownership. Consider a policy to require increased noticing requirements for certain types of project conversions as well as "right of first refusal" provisions.

Action: Support legislative efforts to require owners of condominium mapped apartment projects to provide tenant notification similar to tentative mapped projects before conversion of large rental projects convert to ownership.

2. **Ending Chronic Homelessness:** Homelessness is a multi-faceted problem that requires the cooperation and coordination of multiple cities, counties, nonprofit homeless service providers, and other agencies. The City of San Jose works with its partners to offer a comprehensive array of homeless services ranging from homeless prevention activities to a system of homeless shelters and transitional and permanent housing. As laid out in its 10-Year Plan to End Homelessness, the City will be shifting its efforts away from emergency services to providing its homeless residents with permanent housing combined with wrap-around services.

Action: Participate in the Blue Ribbon Commission on Ending Homelessness in Ten Years and Solving the Affordable Housing Crisis in Twenty. Provide staff support to working groups established to inform the Commission: Prevent Homelessness (Discharge and Planning); and Outreach and Engagement; Shift to Housing First (Rapid Re-housing, and Wrap-around Services); Increase Housing Supply (Land Use and Finance); and The Campaign.

Action: Implement strategies from the City's adopted 10-Year Homeless Strategy to end chronic homelessness.

Action: Continue to work with Housing Choices Coalition, the Silicon Valley Independent Living Center, and other agencies to meet the needs of people with disabilities in finding and maintaining affordable housing.

Action: Continue to collaborate with for-profit and nonprofit housing developers to finance permanent housing affordable to ELI households.

Action: Implement the PROGRESS (Promoting Growth and Early Self-Sufficiency) program. Through this two-year subsidized housing program, the City will assist homeless families and individuals to obtain permanent housing and regain self-sufficiency.

Action: Continue to work with the Housing Authority to set aside Section 8 Housing Choice Vouchers for the chronically homeless.

Action: Investigate the potential for creating a one-stop center for homeless services, similar to the "Mall Concept" that has been implemented in cities across the country.

Action: Explore opportunities to increase Project Homeless Connect days and to hold special Project Connects for youth and other special needs groups. Develop methods to determine the success of these events in moving people off of the streets and into permanent housing.

Action: Work with the Water District, and other City departments to address concerns about homeless encampments.

Action: In conjunction with the Work2Future Program, explore new programs that provide jobs for the homeless, including jobs for recent parolees, single mothers with children, and emancipated youth. Investigate the possibility of a partnership with local union organizations to provide job training opportunities for emancipated youth.

Proactive Legislative Efforts

1. **CEQA:** The basic goal of the California Environmental Quality Act (CEQA) is to develop and maintain a high-quality environment now and in the future. The specific goals of CEQA are for California's public agencies to: identify the significant environmental effects of their actions; and, either avoid those significant environmental effects, where feasible, or mitigate those significant environmental effects, where feasible.

Action: Support legislation at the State level that streamlines the CEQA process, particularly for infill affordable housing and other smart growth projects.

2. **Proposition 1C - Infill Housing Funds:** In November 2006, the voters passed Proposition 1C, the largest State bond in the country dedicated to affordable housing, in order to ensure that San José is competitive for these funds the City has adopted key principles (see Appendix A).

Action: Lobby for implementing legislation that meets the guiding principles adopted by the City Council.

Action: Aggressively apply for funding under Proposition 1C to support San José's affordable housing efforts.

Action: Prepare for the release of infrastructure funding under Proposition 1C by identifying projects early on that would be competitive for funding.

Action: Develop innovative program concepts that can qualify for innovations funding under Proposition 1C, and that can be replicated by other jurisdictions.

3. **Federal Entitlement Funding:** The City of San Jose receives about \$15 million annually for several grant programs through a federal funding formula. These programs include: the Community Development Block Grant program, the Emergency Shelter Grant Program, Housing Opportunities for People with AIDS, and the HOME Investment Partnership Program. Over the last six years, the City has seen a 16% reduction in funding from these sources while the cost of providing services and building affordable housing has continued to climb.

Action: Oppose reductions to federal entitlement programs.

Action: Advocate for changes to the federal law formula allocations to ensure that San José receives funding commensurate with its size and community needs.

4. **Federal Section 8 Housing Choice Vouchers:** Section 8 vouchers provide the most affordable housing option with the majority of voucher holders falling in the lower Extremely Low-Income Category.

Action: Lobby for an increase in the number of vouchers for the City of San Jose's Housing Authority.

Action: Support the Moving to Work concept to provide the Housing Authority of the County of Santa Clara, which administers the San José Housing Authority on behalf of the City, more flexibility in the administration of the program, resulting in increased benefits for San José residents.

5. **Redevelopment Law:** Redevelopment Law requires that a minimum of 20% of tax increment financing collected in Redevelopment Project Areas be set-aside for the development of affordable housing.

Action: Ensure that 20% Funds are protected at the State and local level.

Action: Support efforts to continue the affordable housing set-aside beyond the life of Redevelopment Project Areas.

Appendix A: FY 2007-2008 Anticipated Funding Sources

	City of San José Funds	Funds from Other Agencies
<i>Formula Programs</i>		
HOME		4,333,246
HOPWA		739,000
ESG		444,821
CDBG		10,288,933
ADDI		62,209
Subtotal		15,868,209
<i>Competitive Programs</i>		
Shelter Plus Care		1,540,668
Section 8 - Rental Vouchers – Tenant Based		88,071,023
Public Housing Comp Grant		600,000
Section 8 – Project-Based (Fairgrounds Seniors)		8,280,000
HUD 202/811		0
HOPWA Competitive (SPNS)		1,300,000
HUD SuperNOFA (Supportive Housing)		0
FEMA		0
Hurricane Katrina Victim Assistance Reimbursement		0
Lead-Based Paint Abatement	75,000	
Proposition 1C - Multifamily Housing Program (MHP)		19,900,000
Proposition 1C – Transit Oriented Development Funds		5,000,000
Proposition 1C – Infill Housing Incentive Program		5,000,000
Proposition 1C – Urban and Rural Parks		500,000
Proposition 1C – Innovation Funds		300,000
Proposition 1C – CalHOME program		1,000,000
Proposition 1C – BEGIN program		3,720,000
Proposition 46 – Workforce Housing Reward Program		834,750
Emergency Housing Shelter Program (EHAP)		1,000,000
Low-Income Housing Tax Credits (9%)		62,990,000
Tax-Exempt Private Activity Bonds		46,650,000
Mortgage Credit Certificates		1,548,000
Proposition 63 – Mental Health Services Act (MHSA)		2,000,000
Santa Clara County Housing Trust Fund		2,000,000
Subtotal	75,000	252,234,441
<i>Other Programs</i>		
Tax Increment ¹	34,763,973	
Tax Allocation Bond Proceeds	13,775,000	
Loan Repayments	14,466,932	
Interest Income	500,000	
Rental Rehab Program (loan repayments)	14,800	
Housing Trust Fund Revenue	800,000	
80% Redevelopment Funds – Project Alliance	400,000	
80% Redevelopment Funds – Project Development	19,500,000	
CalHFA Mortgage Assistance		38,688,000
CalHFA Multi-family Assistance		3,500,000
Low-Income Housing Tax Credit (4%)		75,000,000
SJSU Faculty Program	500,000	500,000
Conventional Construction Financing		74,017,000
Conventional Permanent Financing		40,730,000
Federal Home Loan Bank – Affordable Housing Program		3,460,000
Developer Equity		6,300,000
Private Donations		3,000,000
Subtotal	82,406,188	245,195,00
GRAND TOTAL	82,481,188	513,297,650